CHAPTER 9 Small Business Marketing: Customers and Products Page 283 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 9-1 Recognize the steps of the marketing process. LO 9-2 Use customer roles and profiles to help define the target market. LO 9-3 Segment and further define your target audience. LO 9-4 Recognize the major methods for conducting marketing research. LO 9-5 Develop your value proposition. LO 9-6 Understand how to organize marketing plans. LO 9-7 Recognize the characteristics of goods and services. LO 9-8 Define the total product. LO 9-9 Differentiate the stages of new product development. LO 9-10 Consider the impact of the product life cycle. • How has the pricing strategy most likely changed for Greetabl as the company has expanded? What might be the future challenges in terms of pricing and continuing to deliver customized products to its customers? Greetabl Focus on Small Business: Revisiting Greetabl1 Greetabl started as a decorated gift box to use in place of a greeting card (see "Focus on Small Business: Joe Fischer, Zoë Scharf, and the Strategy behind Greetabl" at the start of Chapter 7). Developed by Joe Fischer and Zoë Scharf, the original Greetabl was sold online and in card and specialty shops. Based on research with customers, in its second version, Greetabl became an online-only service that would let you customize the box with your own message and photos, all for $5–$7. As sales grew for the second version of Greetabl, so did their customer research. They came to build a profile of their core customer, someone they called "Emily the Giver." These were women 25–45, who tended to give many gifts to friends and family over the year—for birthdays, "thinking of you" gifts, and special occasions. These women were busy looking for ways to say and show they care, but looking for ways that were stylish, thoughtful, distinctive, customizable, and that fit within their price range—something that was "just right" in size and price, a concept they identified as the Gifting Gap: giving a gift and card that falls in the $15–$30 range. Emily the Giver and people like her would be Greetabl's new focus. As Joe put it, "we would niche down to scale up." This research launched the third version of Greetabl. Joe and Zoë partnered with another printer who could quickly print custom messages and photos on selected panels of every box. Greetabl would offer a curated range of curated gifts for all sorts of occasions and tastes to fill those boxes (and increase its profit levels per order). Think specialty candies and chocolates (like the "Lucky Guy" brownie in the photo above), unique teas, jewelry and pins, small ceramics, cosmetics, bath bombs, and of course a tremendous range of gift card possibilities. Greetabl worked to get orders into the mail within two-days—the fastest in the industry. It added reminder services, online address books, and subscription memberships to its website to make it easier for "the givers" to make Greetabl their go-to place for gifts. Page 284 Even with hundreds of thousands of units shipped, Joe and Zoë still continue their customer research. They have realized that industries exist where their marketing consists of relationships with people–think creative industries like photographers, designers,

marketers, and wedding planners. For that segment Greetabl's specialized business-focused services can make it easier than ever to give distinctive gifts, messages, and experiences to their own customers. Joe and Zoë's latest strategy is to apply everything they've learned to help these professionals grow their businesses, deliver great experiences, and save them time and money through features like discounted shipping and additional customizations. The following video describes version 3 of Greetabl and describes how version 4 will work: www.youtube.com/watch?v=nTHszWYFq8Q. See other Greetabl videos at www.youtube.com/user/greetabl/videos. DISCUSSION QUESTIONS How would you describe the pricing approaches used by Greetabl when it started and as it grew? What differences do you imagine exist between Greetabl's Emily the Giver and business-focused customer types? How would you find customers for Greetabl's Emily the Giver and Insider customer types?

The Marketing Process 9-1 Recognize the steps of the marketing process. The story of Joe and Zoë and Greetabl's offerings shows the power of marketing in the entrepreneurial small business. What exactly is marketing? Marketing is the process of planning and executing the factors of product, price, promotion, and placement to satisfy the goals of the entrepreneur and the organization. It is often confused with selling. Selling is the actual effort to pitch a product to a customer. Sales are essential to the business because sales are the major way any business makes money. But marketing's goal is to lay out the best way to get sales, and set up the conditions so selling will be as successful as possible. The selling act and the marketing process need each other for the small business to be successful. Product, price, promotion, and placement mentioned previously are called the 4 Ps of marketing or the marketing mix. The next section of the book covers these 4 Ps as well as marketing plans, starting with product. From an entrepreneur's perspective, marketing is all about connecting your customer to your product or service. As you can see in Figure 9.1, the first step in this process is connecting the two through the value proposition. The second step applies the value proposition to the mechanics of making the connection through the 4 Ps of marketing (product, price, promotion, placement). The point of all this is simple—generating sales of the product or service for the firm. FIGURE 9.1The Marketing Process Page 285 In this chapter we will go through step 1, focusing on the customer, product, and value proposition. This will also cover the first of the 4 Ps—product. The later chapters will cover the remaining 3 Ps. In Chapter 4 we saw that some entrepreneurs interviewed by the PSED study got an idea for a product or service first, some decided they wanted to start a business first, and some saw both at the same time. We asked those entrepreneurs where their product or service idea came from. As you can see in Table 9.1, sometimes the idea seems to come to them based on their own thoughts

and experiences, and sometimes it comes from listening to others. And a subset of entrepreneurs used both—which is the approach we recommend as the most effective. TABLE 9.1 Sources of Ideas for PSED EntrepreneursTable Summary: Table divided into two columns shows list of business ideas generating mediums. Column 1 notes the sources with column 2 showing the percentage. From within themselves My experience in a particular industry or market 54.1% Thinking about a problem 28.5% Knowledge or expertise with technology 25.8% Developed from another idea I was considering 24.1% Hobby or recreational pastime 26.0% From others Discussions with my friends and family 44.1% Discussions with potential or existing customers 29.4% Discussions with existing suppliers or distributors 14.3% Discussions with potential or existing investors/lenders 8.0% Note: Multiple responses were permitted so totals do not add up to 100 percent. Source: Custom compilation from the PSED 1 survey performed by Kelly Shaver, February 2019. The approach where the entrepreneur comes up with the idea on his or her own is often called the product development process, while the approach based on discussions with others is often called the customer development process. The difference between the two comes from the central or driving focus of the process. In the product development process, the focus is on the product itself, whether it is new or just the newest iteration of an existing product. This was Joe Fischer's and Zoë Sharf's experience in creating the Greetabl box, and then eventually starting their company. Perfecting the product or the innovation within the product is the central focus. In the customer development process, focus is on the customer, specifically on meeting the need of the customer, hopefully in a way that leads to a new product or service for the firm. Each approach has value and limitations. When an entrepreneur is far ahead of customers in terms of thinking of solutions, it might make sense to trust your own "gut," but it helps if you are a genius. When Steve Jobs saw a Xerox prototype computer whose screen mirrored the printed page and could be edited, he knew that was the direction he had to take Apple, whose current computer, the Apple][+ (Apple 2+), could edit only a line of text at a time. The new idea was so hard for personal computer users to understand that few liked the idea when Jobs explained it to them. But when the original Macintosh computers came out, the what-you-see-is-what-you-get approach made such perfect sense to people who shared Jobs's graphical orientation that the new computer immediately found a niche market in the visual, design, and publishing communities, and grew to almost universal acceptance within a decade. Many entrepreneurs are absolutely convinced that like in the movie Field of Dreams, "if you build it, they will come." Such entrepreneurs believe they have a better idea, and if only they create the perfect embodiment of their idea, customers will flock to make it a success. But the statistics show this approach doesn't work out often in the real world—few of us are the next Steve Jobs. For example, the U.S. Patent Office issues about 100,000 patents a year—the proof that an idea is truly original—but only about 0.1 percent

of those are profitable.2 In a typical year, over 50,000 new products will be introduced in the U.S. market. Of those introduced by big businesses, the survival rate is between 20 and 55 percent after two years, while for small businesses the survival rate is estimated at closer to 5 percent.3 In reality, the solution is to engage customers as early in the product development process as possible, as we will see. Page 286 The customer development process starts with the pains and gains of customers as noted in Chapter 4. Understanding how these occur and are dealt with today become a basis for designing new products or services to better resolve the pains or gains than what customers use now. The challenge for entrepreneurs is picking the right customers and the right pains and gains. Everyone has unresolved pains and unfulfilled gains, but as an entrepreneur, the ones that are important to your business are those people will pay well for. University of Southern California professor Tom O'Malia has a saying "contracts, not compliments," and it points to the need to have a solution to customer needs that they are willing to pay for. Getting rave reviews or millions of free users for solving their problem doesn't help if it doesn't lead to your ability to make the profits you and your firm needs. For example, consider the app business. In early 2016, 94 percent of all the money spent on iPhone/iPad paid or freemium apps in the Apple App Store went to 623 publishers, with 61,677 other app makers fighting over the remaining 6 percent.4 This meant that each of the 61,677 app makers on average had a market share of 0.0001 percent each, and an average of $1,391 in revenue. But the reality for the vast majority of app developers is that even with 1 million or more downloads of a free basic app, when less than 1 percent of these users are willing to pay to buy the full-featured app or pay to upgrade the app through in-app purchases,5 few app makers can get enough royalties to live on. Many of these app developers have created something a lot of users download, like, and enjoy, but the app makers haven't created apps that users are willing to pay for. So a strictly customer-driven approach may not always work either. In the end, products and customers have to be developed in a hand-in-hand manner. Let's start by looking at what we mean when we talk about a product or service, and then look in-depth at the product development process.

Understanding the Customer 9-2 Use customer roles and profiles to help define the target market. For an entrepreneur, understanding your customer is truly essential. While we are all customers in our everyday activities, most of us don't think about being a customer, so when we switch to being an entrepreneur, it helps to have an idea how to think about customers. In this section, we will introduce the different customer roles, how to initially learn from your customers, and how to use both of these pieces of information to identify the people who can most benefit from your business, your target customers. Customer Roles As customers ourselves, our first thought is that the customer is the person who

buys something. That can be true, but determining who is your customer can be far more complex. To help clarify this, let's think of the roles tied into buying and using products or services. When you buy it yourself and use it yourself, you are the end user, and the purchaser. But when you are buying something for someone else, you're still the purchaser, but the end user is the person receiving the present. In sales to organizations (e.g., groups, families, or businesses), this happens all the time where the organization has a person or office who handles purchasing goods and services for end users. In organizations, yet another person may be the decision maker who determines which product or service will be bought for the end users, and then tells the purchaser to place the order. For individuals or organizations, an important additional role is played by the influencers, people or groups with the ability to make suggestions or recommendations to people in any of these roles. Page 287 Understanding these roles and how they relate is essential to understanding who your customer is. Very often, especially for products or services you are selling to organizations, you will have multiple customers in the organization—the end user, the purchaser, the decision maker, and the influencers. On the other hand, selling to individuals on the Internet can be a very direct process, where the end user and the purchaser are one and the same. But even here, there are often influencers in the mix, such as referring websites, online recommendations, or the suggestions of family, friends, or social media connections. The other reason it is useful to think about these customer roles is to use the roles to help you understand and map out the purchasing process for your proposed product or service. This initially consists of two questions: (1) How does the individual or organization use these roles to make purchasing decisions? (2) Who is in each role and what is important to them in making those decisions? The answers to these questions will be important to your promotion and sales efforts later. Closely related to this is the idea of the customers' budget cycle (for major purchases this is sometimes called the capital budgeting cycle), which in turn focuses on two more questions: (3) Can the customers afford to buy your product or service right when you pitch to them? (4) If the purchase price is above that level and they need to budget for it, when do you need to pitch to them so they can make their decision, and when will they actually be able to buy from you? These answers will help you schedule your sales efforts and help you set your pricing. To help you better understand your customer, we recommend building a customer profile next. Initial Customer Profiles The most important initial piece of information for the start-up entrepreneur thinking about selling to a customer is understanding at a deep or gut level what the customer is like. Possibly the single most important idea that has come from the lean business practices process is the adage "get out of the building!" The idea behind the phrase is that wisdom about your customers and their needs and wants can only come when you engage potential customers—lots of them—face-to-face. Another element of the lean startup is to develop a

customer profile (also called a customer persona or user persona). This should be the first step in doing any research on your customers and their needs. Later steps, outlined below, can involve surveys and secondary (archival) research, but these first face-to-face interviews are what give you a deep, personal understanding of your customers, which the other approaches don't do well. The process for a start-up should begin with face-to-face interviews with people you have identified as potential customers. The goal in these interviews is to get an unbiased sense of the ways potential customers think about dealing with the issue your product or service helps resolve or improve. The unbiased aspect is crucial. Asking people if they would like your product or service will get you a lot of people trying not to hurt your feelings. Gathering biased information now means you are likely to draw the wrong conclusions about your offering later, at best costing you time and money to fix, and at worst meaning you won't really be able to find customers who want what your product or service offers, and your business crashes. Learning how to do this is the purpose of Skill Module 9.1. Page 288 SKILL MODULE 9.1 Interviewing Customers in an Unbiased Way One of the best examples of how to do unbiased interviewing comes from marketing expert Justin Wilcox of Customer Development Labs (http://customerdevlabs.com/2013/11/05/how-i-interview-customers/). He proposes a five-question survey, what he calls his "customer interview script": What's the hardest part about [problem context]? Can you tell me about the last time that happened? Why was that hard? What, if anything, have you done to solve that problem? What don't you love about the solutions you've tried? Justin points out that the hardest part of preparing the interview is figuring out what the problem context is. He says you should look for a situation that occurs frequently enough or is painful enough for the interviewee to warrant solving. So if you imagine yourself building Yelp for Vegetarians, don't ask "What's the hardest part about finding a good vegetarian restaurant in a new city?" That question telegraphs what your product is. Asking "What's the hardest part about being a vegetarian?" is so broad you could get lots of irrelevant answers. A good balance would be asking "What's the hardest part about eating out as a vegetarian?" You can learn more from his website and the video explaining his approach. Justin also offers a free online script generator at http://customerdevlabs.com/script/. He includes a video explaining how to use the generator. Armed with this script, your next goal is to go out and interview potential customers (your instructor will give you a target number). Record the interviews so you can catch everything (your smartphone probably has a recording app), or take detailed notes on each person, including his or her demographics and how you can get back in touch with the individual. You analyze the results by first looking at the problems your interviewees were trying to solve (question 1). This is often called the customer job.6 Questions 1, 2, and 3 tell you about the pains your customers are experiencing or the gains they wish they could achieve. Question 4 tells you about the ways they try to deal with the pain or gain right now,

while question 5 tells you where there is a possibility for something better. Together, the answers to these questions help you understand how your potential customers are thinking about the situation. If they are spending time and money on alternatives that they don't think do the job, then their pain can point you in the right direction for developing a product that might resonate. You take these answers and the demographics and build one or more customer profiles to translate the results into a personal example of the kind of people you will keep in mind as your develop and sell your product. The resulting report is often done as a single-page profile, shown in Skill Module 9.2, and again in Skill Module 9.6 when you build on the customer's job to craft your value proposition. SKILL MODULE 9.2 Creating a Basic Customer Profile You can build a basic customer profile with sections corresponding to the issues raised earlier: (1) the customer job, (2) pains, and gains, (3) how strongly he or she feels about the pain/gain, (4) how the customer deals with getting the job done now, (5) a demographics section including basics about the person (age, family situation, work, (6) customer job specifics (how often does it happen, where), and (7) the purchasing process and budget cycle for solutions to the customer job. For these sections, you pretty much fill in the information from the interviews. In doing many interviews you're looking for recurring customer thoughts, issues that have the greatest potential for satisfying a larger share of the market (aka more sales!). When you have this information, you apply your creativity to create three more elements: (1) The customer story should be a short paragraph that helps you get a feeling for the customer, pulling together what is on this page, and including special or unique points not covered elsewhere. They help you understand the person and his or her situation around the customer job in as close to the customer's own words as possible. (2) A quote, picture, or both helps remind you of what drives them. (3) A name for the profile helps it become your in-house shorthand for categorizing them, like "Emily the Giver" or "new mom." What if your unbiased customer interviews show your basic idea for a business doesn't hit a responsive cord? There are two possibilities: (1) change or pivot your product or service to better fit with what customers are talking about, or (2) change or pivot your customer base to find people who would be willing to buy what you propose. If neither works, you probably need to look at another business idea. But if your interviews show a path to creating a worthwhile product or service, it is time to do an even bigger customer research effort using all the tools at your disposal, which we cover next. Page 289 Target Market The point of identifying the customer roles and building the customer profile is to help you clarify exactly who would be the best customer for your business—the person who would be helped most by the product or service you're offering, and because of this would be your best and most loyal customer. That "perfect fit" customer is called your target market. Target and Other Markets Target market is the name given to one of a set of nested terms for the market sizes, from most general to most specific. The terms are shown in Figure 9.2: FIGURE 9.2Nested Types of Markets Total available market (TAM):

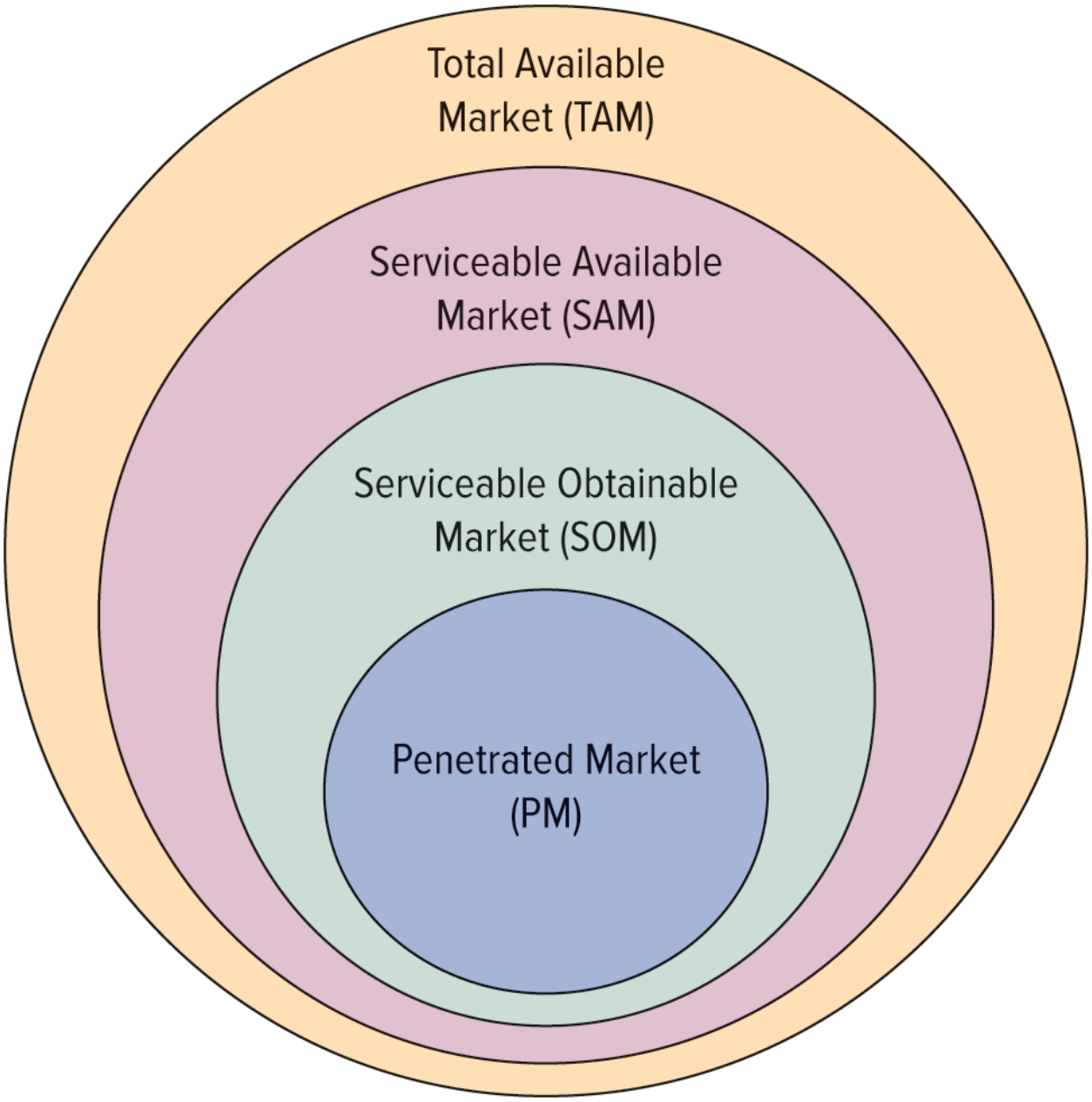
This represents everyone who might consider the product or service you're offering. Serviceable available market (SAM): This represents customers within your geographic reach. If you depend on local traffic, it might be your neighborhood, city, or region. If you're online, it could be as large as your TAM. Serviceable obtainable market (SOM): This is also called your target market and represents the customers that you think would be interested in your particular product or service. This is almost always first based on the pains they are suffering or the gains they aspire to acquire, but it can also be refined by other demographic, attitudinal, or behavioral qualities like their income, their fashion sense, their participation in particular activities, or even being close by. Penetrated market (PM): If your business is operating, your actual number of customers divided by the target market tells us how much of the market you have attained so far, and how many people are available to be sold to. There can be more than one target market, when your product or service could be used by groups different enough that they may like your offering for different reasons (a famous one went "tastes great" versus "less filling"), requiring different promotional efforts. These are called customer segments, and we will go into segmentation analyses in Chapter 10. The Target Customer Page 290 In reality, most entrepreneurs start out with an idea who their target customer "is." The quotation marks are there because most of the time, as entrepreneurs begin to research with customers, doing the initial interviews and building the customer profile, they refine or even change their description of the target customer. A typical example is given in the Small Business Insight. SMALL BUSINESS INSIGHT Refining a Target Market One of our students started out with an idea for a social messaging app for students studying abroad. His initial target market was students already studying abroad. As he interviewed students who had been or currently were abroad, he discovered the time to capture the students as customers was when they were still at their home colleges, planning their trips. So he started to change his target to students planning to go abroad. As he switched to interviewing students currently in the planning process for studying abroad, he found out these students primarily depend on the suggestions of their school's study abroad office. Armed with this knowledge, he changed his focus to the managers of college study abroad offices. As he interviewed those managers, he added a school-to-student-studying-abroad messaging feature to his product. As his interviewees told him about competing services in the industry who were mostly targeting the larger state schools and wealthiest private colleges, he narrowed the focus of his target market to Catholic colleges. As a student in a Catholic college, he better understood that market than colleges in general and it was easier for him as a Catholic school student to get time with study abroad administrators at other Catholic colleges. His competitors didn't have these colleges in their sights—yet! Finding the right target customer is crucial to your success in building a business. So as you move from your first guess to your first data-based findings, you will begin to see more possibilities for who could be your target

customer. How can you decide? There are several ways: Benefit Matching: The more closely customers' needs/pains/gains align with the features or benefits of your product or service, the happier they will be. You can find the categories of benefits in Chapter 7. Long-term value (LTV) or customer lifetime value (CLV): A repeat customer will give you more revenue than one who buys from you only once. A customer who buys the premium product will give you more profits than one who buys the basic version. A customer who buys the product and add-ons like accessories or warranties will give you more profits than one who sticks only to the product itself. Going after the customer who will bring the most revenue and profit to your firm is a time-honored way to target. You can compute LTV by taking (a) the size of your average sale to the type of customer you're focusing on, times (b) the number of repeat sales per period of time—weeks, months, years, times (c) the number of time periods you expect to keep these customers, times (d) the profit margin. For Starbucks in 2004 (when it released these data publicly), this was (a) $5.90 times (b) 4.2 visits per week times (c) 52 weeks times 20 years times (d) 21.3 percent profit margins led to $5,489 in profits per customer based on sales of $25,771.7 Influencer Impact: A customer who buys your product or service and likes it is good, but one who spreads his or her message of happiness to the rest of the world, through word of mouth or social media, can lead to increased sales from customers you might not have known to target. Minimizing Churn: Keeping existing customers is usually more valuable than trying to find and attract new ones. To compute your churn rate, count the number of customers you get over a period of time (a day, week, month, year—depending on your sales cycle). The percentage who never come back is your churn rate. In deciding on whom to target, keep in mind that there can occur for some businesses a "perfect storm" of benefit, influence, and long-term value, and these often characterize your perfect customer. Page 291 Finding First Customers For entrepreneurs in a start-up, finding those first customers is a key challenge. You have to start somewhere, and it could make good sense to believe that having any sales is a good thing, but in reality, having good sales is what is most important in those early days. What makes a sale "good"? Getting revenue from customers is a good thing, but in reality, especially in the early days of your business, what is probably more important to you are the nonfinancial benefits. Three come to mind: (1) feedback: you want to know how well your product or service works for the customer, how well it meets their needs, what they like and dislike about what you offer, and if they would buy it again or recommend it to others; (2) testimonials: statements they make that they will let you publicly repeat and attribute to them; and (3) sharing: where they post positive comments about your product or service to their social media accounts. There are also three typical places to go for first customers, which are outlined in Table 9.2. Table 9.2 Three Ways to Find First CustomersTable Summary: Table divided into three columns summarizes various ways of reaching out to the target audience. Column 1 notes the customer groups. Columns 2 to 3

are marked as: pros and cons. Pros Cons Family and friends: You know them; they like you; find in person and on social media. They'll buy because they like you. They'll buy when you ask. You know who they are. May not really need or use the product. If same last name, less useful for testimonials and sharing. Early adopters: Love new things; find them shopping (Sharper Image, Best Buy) or online (The Grommet, SkyMall) where new ideas and products are offered. They are most likely to make an impulse buy if it is new and seems interesting or useful. Only 16 percent of all customers are early adopters, so finding them is harder. May not have the greatest need for product. People in pain: Think who has the biggest need—for moms of babies think baby stores, for little league products go to local games and fields. Because they are facing the customer job and the pain tied to it, they can appreciate your product the most and can offer the most useful feedback. Even harder to find. How many moms going into toy stores have the problem your new baby bib solves? The baby food aisle at the supermarket would be better. Looking at Table 9.2, you can see why finding people in pain could be the best (even if it is the hardest) way to go. Getting feedback from such people may be more important than the cash, so discounting or even giving away your product could be worthwhile if you can get permission to follow up with the customer. Those first customers, regardless of how you find them, who give you feedback, testimonials, and sharing are your best initial prospects for "perfect customers." Taking care of them is what we will talk about next. Thinking about Customer Service Know that not all customers are created equal. Business is a relationship, and like all our other relationships, there are degrees of closeness. Customers can love your business, like it, feel neutral about it, or dislike it. Obviously having people who are positively disposed toward your firm is what you want. In fact, the hallmark of the most successful start-ups is customers who are passionate fans of the business. Most of the greatest brands are successful because of a small, but steadfast and vocal, cadre of passionate fans. Think of people raving about Starbucks, Ben and Jerry's, Whole Foods, iPhones, or any of a thousand performers, movies, or shows. What makes a passionate fan of your business? It can be a product that resonates powerfully, like the iPhone does for a segment of customers, but more often, it is a solid product or service wrapped up in an organizational culture or way of life that creates an enduring emotional connection with the customer. The hallmarks of this, which we might call outstanding customer service, include:8 Show interest in and concern for everyone in your business—customers, employees, suppliers, and the community alike. Go the extra mile for these people. You've heard of Zappos's and Nordstrom's return policies because customers are so impressed by them. Page 292 Take time to be nice to all these people. A famous book is Hug Your Customers by Jack Mitchell, but it applies to everyone you deal with. Be honest and open in how you operate. When mistakes are made, fix them. Dave Sinclair, a St. Louis car dealer, had nailed this when he made his motto "If the car you buy from me isn't right, we'll make it right, free." Keep in

mind the SERVICE acronym (social, enthusiastic, responsible, vibrant, intelligent, courteous, engaged) as a way to recall (and teach your employees) what outstanding customer service entails. Realize that small businesses have a natural advantage in connecting to their target customers and making them into fans. Why? Because your customers can talk directly to the CEO of the business. Because a small business can change quicker than a big firm. Because each customer is probably more important to the small firm starting out than for a bigger, established business. For many entrepreneurs engaged in their start-up, there are so many things to do and so many things to learn and relearn that it can become too easy to forget about the customers, or take them for granted, as some of the businesses did in the following Small Business Insight. SMALL BUSINESS INSIGHT Generating Value for Customers I had the misfortune to have to replace my air conditioner in the middle of a St. Louis summer. Dutifully I called three firms. One was the firm I had been dealing with for years. Another had good referrals from friends, and the third, Indoor Comfort Team (www.indoorcomfortteam.com), had won a local service award. All three responded promptly, came out to my house quickly, and gave me their estimate. The friend's referral emailed me a PDF invoice that was clearly just typed in MS Word. The price was given, and a line said "Warranty included." The long-time connection left a two-color proposal with about 10 of 20 boxes checked off showing what the company would be doing and four items showing what the warranties would be. • A high-value job estimate. The enlarged circle gives you an idea of what all those lines of text represent. Mark Dierker/McGraw-Hill Education The award winner had me floored. The proposal form was six colors, showed "good," "better," and "best" options, and had nearly 60 check boxes, which the sales rep went over with me to show all the things the company would do and what it would check and double-check. The rep mentioned twice as many warranties as my long-term provider. Note that all three firms had the same potential. They are in the same business, with pretty much the same products. When I explained to my long-term provider why I was going with Indoor Comfort Team, the entrepreneur told me, "But we will do all the things the other guys say they will." However, the award winner had taken the time to think through all of those steps, package them nicely, and go through them with me, the customer, to ensure what I was getting. By doing this the rep was actually creating value, helping me learn more about what I was trying to do, and in doing that, helping me appreciate his thoroughness and professionalism. Passionate customers are beneficial in a variety of ways. They are most likely to buy again and again. They are more likely to share their passion for your business with family, friends, co-workers, and online pals. They are more likely to closely watch what your firm does and are the first to give you feedback and their ideas for new products or services. Their passion for your firm will empower and reward you and your employees, and because passion is contagious, passionate customers raise the positivism other customers feel. That is why creating a passionate core

of target customers is so important to having a truly successful business, and achieving that depends on your creating a culture that puts customers first, as a unending reminder to you and your team what you want to do for your customers and your company. With your customer profiles, target markets, and segments defined, you are positioned to do a deeper dive into your market, an approach called marketing research.



Segmenting Your Market 9-3 Segment and further define your target audience. It is easy to say that “everyone” will buy your idea, but that is true for very few products or services. Think of your circle of friends. How many foods or drinks or movies do you all agree on? How would those choices play with your parents? In reality, most products and services work best with particular markets. The successful entrepreneur leverages this idea to identify the best market (or markets) for their good or service. That leveraging process is called market segmentation. Segmenting is simply a way to divide the total market—everyone in the world, essentially—into manageable pieces that have some common characteristics. Your target market is the segment or segments you select on which to concentrate your marketing efforts. A marketer can choose more than one target market, but financial, resource, or time constraints may mean that a smaller business can concentrate its efforts on only one target market at the beginning and consider additional ones later. Marketers use information on the target market’s wants and needs in order to tailor the product or service, as well as its price, distribution, and promotion.9 Sources of these wants and needs can be the customer interviews, customer profiles described above, and marketing research described next. Although you could divide by virtually any method imaginable (by middle initial, month of birth, number of cavities, last book read, etc.), marketers tell us to look for segments that are likely to have similar needs and buying behavior. There are several classic methods for segmenting customers: Geographic segmentation: Many businesses, large or small, choose to operate in one place, and even the biggest multinationals choose a manageable number of countries.10 People who live in cities often have different needs from those in rural areas. People who live in Minnesota have different needs from those in Arizona, particularly in the winter. New Yorkers have different preferences from Los Angelinos. Many service industries have no choice but to segment geographically; if your car wash is located in Lubbock, you aren’t going to attract too many customers from other cities. Demographic segmentation: Teenagers have different needs from toddlers, and both differ from seniors. Where and how people shop and what they buy varies because of income, ethnicity, gender identification, education level, marital status, and virtually any demographic variable you choose (see Figure 9.3). Life cycle position—unmarried, married without children, married with small children, married with teenage children, empty nesters, retirees, and so on—also determines the types of products a person may be interested in buying. Page 294 Benefit segmentation: Recall the discussion of benefits in Chapter 7. Customers can be divided into groups based on what benefits they seek when making product or service decisions. For example, one customer buys a certain brand of toothpaste because it is a cavity fighter. Another customer wants the toothpaste that gives him fresher breath. A third may be looking for whitening power, while a fourth may want something that fights plaque. Many cars are segmented this way—speed, safety, capacity, and the like. Frequently used categories

include those shoppers interested in a good value versus those more interested in reputation and prestige—think of Walmart shoppers versus those frequenting designer dress shops and how Target tries to position themselves as just a little more fashionable than Walmart. Psychographic segmentation: Another category for segmenting has to do with an individual's personality, attitudes, concerns, choices and behaviors. Adventure seekers buy different products (or for different reasons) than more timid people. Hobbies, sports interests, religion, cultural interests, and similar individual factors can determine the likelihood of people purchasing certain products. Where benefit segmentation looks at the products' features, psychographic segmentation looks at what drives the person, for example health concerns (so plaque fighting is important) vs. social concerns (where bad breath is the focus). It is typical to combine these types of segmentation approaches. For example, the Beacon Street Girls (p. 314–316) products were segmented by gender (girls) and age (9–13). In addition, the fact that they were into values and community service would be a form of benefit segmentation. Beacon Street Girls also had primary and secondary target markets—the girls and their parents as the primary target and secondarily other gift-givers. Even here, the different segments may buy the same product for different reasons. Figure 9.3 Target Market Ads These Burger King ads are aimed at targeting two different markets. Can you identify which market(s) each ad is geared toward? Is each ad successful in meeting its market's needs? Why or why not? Images Courtesy of The Advertising Archives In fact, there are companies who have spent millions creating specialized customer profiles based on combinations; these are often called predetermined market segments. Claritas (which used to be a part of Nielsen, a company you probably recall is famous for television ratings) has several types of segmentation analyses. The one that fits for most consumer-oriented firms is called PRIZM (https://claritas360.claritas.com/mybestsegments/#zipLookup). For nearly any zip code in the United States, PRIZM can tell you the predominant groups in it. PRIZM, for example, will identify the five largest market segments within a specific zip code for free. For each segment, PRIZM provides a free, detailed rundown about the buying habits and demographics of this group. The information in these predetermined market segments can help you identify the financial and shopping characteristics of the group, which can be difficult questions to ask people face-to-face. These segments can also be a useful check on your own analyses of your target market. A competitor to PRIZM is Esri's Tapestry model (www.esri.com/data/tapestry). Tapestry provides descriptions of its segments, as well as the opportunity to see some data for free by zip code. Additional data require a fee. Page 295 Why don't we recommend using these carefully crafted segments first? Because the essential strength of small business owners is that they are close to their customers. Good entrepreneurs understand their customers and their needs at a personal level. It actually hurts your ability to define your own target market if you first rely on some other group's or

firm's idea of who the target audiences are. The only certain way for you to know your customers is to start looking for them personally, finding out what they are like personally, and hearing what they have to say personally. Then you have a basis for deciding if and how these predetermined market segments fit any of your real customers. If they do, then these commercial products can help you know more about your customers, but they can never really replace the knowledge you first build about your customers on your own. A Segmentation Example Let's imagine you live in Phoenix, Arizona. You are bilingual in English and Spanish, and you want to start a day-care center with a bilingual focus. You have done some customer interviews and found there are families interested in this. From your interviews you have created a customer profile. The Juarez family wants to find a day-care center for little Tomas. The family speaks a mix of English and Spanish at home and wants the children to be comfortable in both languages. Good news! At your center he is not likely to be misunderstood. Other benefits include being able to leave instructions in English or Spanish or having children get a mix of both cultures, such as holiday and birthday celebrations, stories that are read, decorating colors, the day-care center's name, and such. From the interviews, it was also clear that these features would appeal to secondary-market families where parents speak English and Spanish and even all-English-speaking families who want their children to be bilingual. The challenge facing you is deciding where to put your center to get the largest number of customers. • What are the benefits to both your primary- and secondary-market customers if you open a bilingual day-care center in the middle of a largely Hispanic neighborhood? How would you promote to both of these markets? Andrew Resek/McGraw-Hill Education Applying this profile, think about who is your market. For starters, it is small children, or at least, the parents of small children. You have segmented by life cycle position; that is, you have eliminated children, teenagers, senior citizens, and parents of older children. But this really does not eliminate very many potential customers. How else could you limit your potential customers? Given the bilingual interests, you are probably looking at families (primarily Hispanic) with moderate income and above, figuring that families need to be rich enough to afford your service but not so rich as to hire nannies. Given people don't like to drive their children all over town, you need to pick a location close to families who would be in your target market segment. It is possible to do this sort of demographic segmentation research on the Internet, as shown in Skill Module 9.3. Page 296 SKILL MODULE 9.3 Finding Demographic Information by Zip Code There are several websites that offer breakdowns of demographic information organized by city or even zip code, such as www.zipwho.com and www.city-data.com. When looking for basic information on potential customers, this kind of information can be extremely valuable. We've talked about a bilingual children's day-care center in Phoenix. The primary target market is Hispanic families with children and working parents. One way to advertise to these parents would be to do a traditional flyer,

like those mailed out by Valpak and similar companies. For such coupon-sized flyers, you can select the zip codes in which your target audience would receive them. So in Phoenix, which zip codes would it be? For this search we will use www.zipwho.com because it provides the most ability to specify demographics and localities in searching. Selecting Arizona and typing in "Phoenix" gets us precisely where we want to be. Because we are looking for Hispanic families we selected "Hispanic Ethnicity (%)." While there isn't a demographic category on zipwho.com for families with children, instead we used "Average Family Size," figuring families with children will be larger, and there we'll accept the default values. We will also look for "Median Income" to identify families with more money to spend on day care. ZipWho The result is a list of 38 Phoenix zip codes ranked by median income. The zip code with the highest income and highest Hispanic ethnicity is 85037, with an income of $49,101, 41.5 percent Hispanic ethnicity, and 3.3 people per household. ZipWho For each zip code, there is a hotlink that takes us to a demographic breakdown of the area. Let's look at the number 8 zip code on the above list, 85037. Click on 85037 and you will see the statistical profile below. ZipWho The population in this area is well-off, with income in the 73rd percentile (meaning only 27 percent of Americans are making more than the median income in this zip code). Household size is even higher, at the 96th percentile. So it is likely the people in this community have children, and should probably be able to afford child care. Note also that this zip code has a good-sized population, 33,208 (41.5 percent Hispanic), so there would be more people to respond to zip code–focused advertising efforts. This number is important because direct mail firms usually have minimums, for example, 10,000 households at, say, 4 cents per home; making sure you can make back your $400 initial outlay is a key consideration. This is where the marketing funnel described in Chapter 10 comes into play. So you send out to 10,000 households. If the funnel's return rate holds, you could get 20 customers, 10 of whom would be loyal. To make this advertising program work, you would need to make a $20 profit from each of the 20 initial customer families. Repeat this with the other zip codes in the listing and identify at least two zip codes that you think look promising, with a large enough number of Hispanic families in the area and an area with a high enough family income to give the mail-out the possibility of being financially worthwhile. By the way, you can see many of these Census statistics graphically mapped at www.city-data.com, but it doesn't let you select multiple factors at the same time. Page 298 Given this process you have a target zip code, 85037. With that information, you can go to PRIZM and check into the predetermined market segments of the community. PRIZM will identify the five largest market segments within a specific zip code for free. For each segment, PRIZM provides a free, detailed rundown about the buying habits and demographics of this group. For zip code 85037, all of the five top segments according to PRIZM are ones with kids (Multi-Culti Families, Multi-Culti Mosaic, Pools & Patios, Second City Startups, and Up-and-Comers).

See the photo of the PRIZM results below. As noted earlier, using predetermined market segments can help you understand your target market in new ways, but the key always is the information you personally obtain from the prospective customers you interview. • This is the breakdown for the 85037 zip code in Phoenix using Claritas's segmentation model, PRIZM, found at https://claritas360.claritas.com/mybestsegments/#zipLookup. The profiles on the left side are 5 of 66 different consumer segments based on extensive research. Why should predetermined market segments like the one shown here be used only after you've identified and learned firsthand about your target market? claritas Page 299 While defining your target market is important, it also pays to think about secondary target markets.11 Remember that for Beacon Street Girls the secondary market were friends and grandparents of the girls, a potential likely source of revenue (pages 314–316). These are customers who might be interested in using your product or service, but are not whom you probably start out targeting. You need to at least consider who they are and how you might respond to them, and certainly keep them in mind for future expansion. For example, what will you do if Chinese parents call your day-care center and ask if they can enroll their child so that she might learn more Spanish along with her English? Roy "Bud" Davis, one of the cofounders of Bert and Bud's Vintage Coffins (www.vintagecoffins.com), builds custom coffins designed to be works of art that make a statement about the person who will be buried in them. His target market is wealthier people over age 55 who have "an independent streak, a sense of humor about their mortality, and the practicality to plan ahead." He found secondary target markets in Civil War reenactors who want authentic-looking recreations of historical caskets, heavy metal music fans who use them as beds, and pet owners looking for a way to remember a special pet.12 Why bother with all of this targeting? The main reason is so that you don't waste a lot of effort and money. Once you know who your target market is, you can determine their purchasing behavior. You can find out where people in that group shop, where they are likely to see your advertisements (e.g., what television shows they watch, what magazines they read, what websites they visit, etc.), what prices they expect, what messages are likely to appeal to them—in short, everything you need to know to successfully market to them. If you are trying to sell handmade baby clothes, you could buy a banner ad on the CNN website, but one on the Mommy Mall website is less likely to be wasted on nonpurchasers. It's just logical to be where your potential customers are.13 From the information you gather from your interviews and the data you can develop from these data sources, you can think through how well you know your customers, and what you still want to learn from them. No commercial survey and most initial customer interviews answer all the questions any entrepreneur wants answered before they start spending their money and making their key decisions. So all this research helps you decide what else you need to know, and it help you decide on the topics you want to pursue in your own marketing research efforts. The goal is

to know everything you need to about your customers to know who your key target market segments are, where are they, what will they like about your offering, and where they get the information they use to make purchase decisions.

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Basic ZIP Code Search

ZIP Code: [ ] Basic Search

Advanced Demographics Search

State: Arizona
Advanced Search

City: Phoenix *(optional)*

Hispanic Ethnicity (%)

between 0.0 and 100.0

Median Income ($)

between 7236 and 20000

Average Household Size

between 1.3 and 15.2

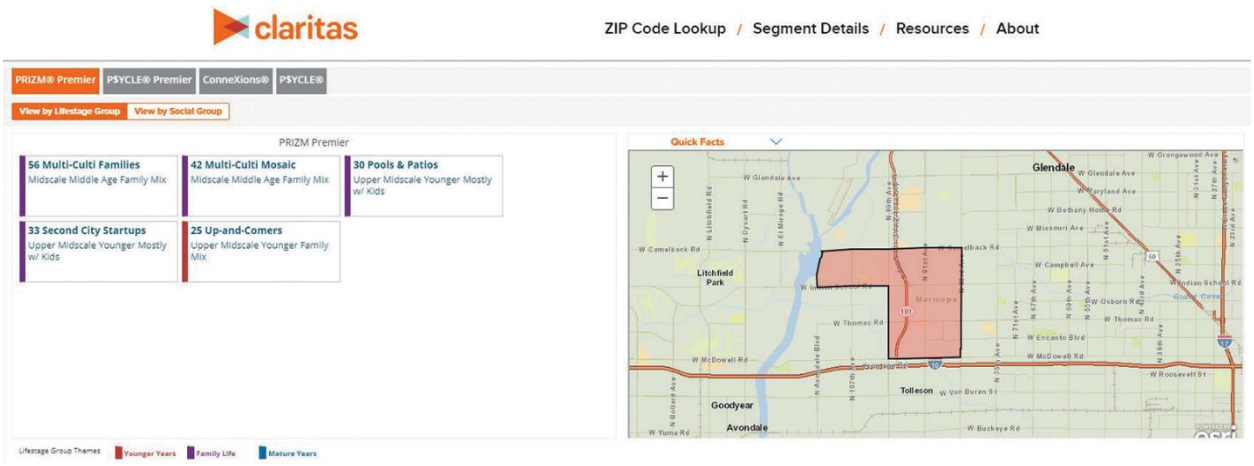
[Choose Demographic Attribute]

between [ ] and [ ]

	Location	Hispanic Ethnicity (%)	Median Income ($) ▼	Average Household Size
1.	85045 Phoenix, AZ	6.6	105,090	2.9
2.	85054 Phoenix, AZ	4.6	87,106	2.7
3.	85048 Phoenix, AZ	7.9	82,865	2.8
4.	85028 Phoenix, AZ	6.0	65,427	2.5
5.	85050 Phoenix, AZ	6.6	64,971	2.6
6.	85044 Phoenix, AZ	9.7	60,095	2.3
7.	85024 Phoenix, AZ	8.7	56,463	2.5
8.	85037 Phoenix, AZ	41.5	49,101	3.3
9.	85053 Phoenix	13.4	46,422	2.6

85037: Phoenix, AZ

		National Percentile Rank (0-99)	
Median Income ($)	49,101	73	
Cost Of Living Index	102.5	52	
Median Mortgage To Income Ratio (%)	22.1	64	
Owner Occupied Homes (%)	83.6	76	
Median Rooms In Home	5.5	54	
College Degree (%)	11.7	30	
Professional (%)	22.2	22	
Population	33,208	89	
Average Household Size	3.3	96	TOP 10%
Median Age	27.2	3	BOTTOM 10%
Male To Female Ratio (%)	98.9	80	
Married (%)	59.7	41	
Divorced (%)	11.6	79	
White (%)	45.6	11	
Black (%)	7.5	73	
Asian (%)	1.8	77	
Hispanic Ethnicity (%)	41.5	95	TOP 10%



Marketing Research 9-4 Recognize the major methods for conducting marketing research. While the customer profiling method mentioned previously is essential to give you a personal, gut-level understanding of your customer, when you have to start thinking about customer groups that may be counted in the thousands or millions, there is nothing like solid research to give entrepreneurs and investors confidence that a plan will actually work. Getting these facts is called marketing research.14 Marketing research can verify the size of the potential market. It can show what the competitors are doing correctly or what their weaknesses are. It can also reveal where potential customers are likely to shop, likely to see advertisements (as well as how they feel about different sources and types of advertisements), and what they consider a reasonable price. You may believe that your product or service has some tremendous advantages over the competition, but marketing research might show you that the customers really aren't willing to switch providers, do not think your features are worth the extra cost, or do not even like these features at all. Without this sort of information, you cannot put together a coherent business plan.15 Marketing research is where and how you get the facts to support your plan and the proof that what you are planning to do has a reasonably good chance of succeeding. Research falls into two major categories. Primary research is research gathered to answer a specific marketing question. Secondary research is research already gathered for some other reason than your specific question, but can be just as useful. We will cover each next. Primary Research Primary data are specific to the problem you are solving. When you did the customer profile interviews, you were conducting primary research. In primary research, you decide what you need to know and how to get that information. This information is extremely current, but it can often take somewhat more time and money to gather it. There are marketing research firms that could do this for you, but the cost—usually several tens of thousands of dollars—tends to put it out of reach for small businesses. A much more reasonable option is an online survey. (See Table 9.3 for some

cost comparisons.) TABLE 9.3 Cost Comparisons for Various Survey Methods16Table Summary: Table divided into four columns compares investment cost for setting up new business. Column 1 notes the account heads. Columns 2 to 4 are marked as: mall; phone; and online. Mail Phone Online Setup $40,000 $6,000 $1,500 Invitations 34,800 66,667 500 Processing 38,560 72,000 0 Total $113,360.00 $144,667 $2,000 Cost per response $4.72 $6.03 $0.08 Note: Based on 12 surveys with 2,000 responses each. Page 300 There are several forms of primary research. You were introduced to interviewing in the discussion about building customer profiles. Other techniques include observation, focus groups, and surveying. Observation There are a number of methods for gathering data in primary research. One category consists of observation methods. For example, I could go to the local grocery store and watch people shop. I could make lists of the products they choose and the time they spend making decisions.17 This is called ethnographic research and has its place. For example, if I was considering opening a restaurant in a particular location, I could stand in front of the location and count foot and automobile traffic. I could visit a competitive restaurant and observe what people ordered, how long they stayed, and the time of day they visited. I could listen to the customers' comments about what they like or don't like.18 A great free resource is Giff Constable's book Talking to Humans which details the how's and why's of this approach, and it is available to students and faculty for free online at www.talkingtohumans.com/. Focus Groups Another method is the focus group, which is a small group (8 to 12 people) that is asked to meet to discuss a series of questions about a particular product or service. A skilled researcher, who can make sure the questions are asked the right way and the data are systematically collected, conducts these meetings. Because participants are often paid for their time, this can be an expensive prospect for many small businesses.19 • In a focus group, the goal is to get participants to talk about their impressions of a product, service, company, or concept. How would you select focus group participants to give you the best feedback for your business idea? Monkey Business Images/123RF Page 301 On the other hand, gathering a few friends and neighbors over for dinner and quizzing them on their ideas about your product may be just as productive, if not quite so formal, but with friends, you always need to worry about how much they are trying to avoid hurting your feelings. (See Skill Module 9.4 for a brief explanation of how to conduct a focus group.) This more informal approach is also a good way to test your questions to make sure your audience understands exactly what you are asking. That is especially important with closed-ended questions, because there may be alternatives you hadn't considered or ambiguities you hadn't noticed. (This is sort of like the yes/no question, "Have you stopped spanking your children?" How do you answer that if you never spanked them?) SKILL MODULE 9.4 How to Conduct a Focus Group Focus groups are one of the most widely used techniques for getting information, especially at early stages, when you may not know everything you need to know about your product,

service, or market. While it is probably best to have professionals run your focus group, you can do a passable job on your own if you follow these steps: Background: Take a look at a book on how to conduct a focus group to familiarize yourself with the technique. Some examples are books like Focus Groups: A Practical Guide for Applied Research by Richard A. Krueger and Mary Anne Casey (Thousand Oaks, CA: Sage, 2000), or his online guide at www.eiu.edu/ihec/Krueger-FocusGroupInterviews.pdf. Or see the University of Kansas's web page on conducting focus groups (http://ctb.ku.edu/en/table-of-contents/assessment/assessing-community-needs-and-resources/conduct-focus-groups/main). Questions: Determine the three things you'd like to know about how potential customers think about their purchases of your product or service. Aim for open-ended questions. Moderator: To help people feel at ease, it is better to get someone other than you to moderate the focus group. If you have a friend with experience, that's great. If not, a friend who works as a salesperson, especially the sort who travels, has many of the needed skills, such as getting people to explain their reservations, dealing with a variety of customer reactions, and thinking on his or her feet. You can also check with the local university to see if there are students or professors with experience whom you can hire. Location: Get a location that is comfortable and offers few distractions. In order to hear what is going on, buy or borrow a child's in-room monitor, so you can listen from a distance to the focus group as it happens. Get a tape recorder to save all the comments. Participants: Think in terms of friends and friends of friends. Look for people who like to talk and are likely buyers of your product or service or who are already using a competitor's product or service. Offering dinner and perhaps a small gift or a drawing for a larger gift is suitable for this kind of setting. Scheduling: Aim for a two-hour block of time. Take a break after around 60–75 minutes so you can talk to the moderator if you need to adjust the questions or probe for answers. Greet the participants as they arrive and leave, and be ready to answer their questions. It is a nice touch to come in and answer participant questions at the end of the session, if you can do it graciously and without sounding defensive. Analysis: Have an adviser or mentor listen to the recording separately from you, and discuss what he or she noticed and what you did. Where possible, build a poll of responses to see how many people felt one way or another. Be on the lookout for concerns or problems people raised. Surveying Page 302 A most typical data-gathering tool when you are looking to gather information from large numbers of people is the survey—some form of questionnaire. The questions may be asked in person, on the telephone, by mail, or online. In person tends to be the most expensive method, with telephone coming in second, followed by mail and online, as shown in Table 9.3. On the other hand, mail has the lowest return rate and does not allow for much flexibility. In person, you can ask for clarification, have people expand on their answer, or even change the next question based on the response. Online surveys are easy to get started, and can be extremely inexpensive.

That said, getting people to respond to online surveys is a particular challenge. For all types of surveys, it can help to use multiple screens of questions, so respondents get to the right questions for them based on their responses to earlier questions (known in online survey terms as branching). For example, if a respondent is currently not using a particular product, the next questions he or she sees may go after the reasons for not using it. If respondents do currently use the product, the next questions may ask about their current provider.20 • Surveys can be done online, by mail, on the phone, or in person like the entrepreneur and prospective customer here. What kinds of questions would work well in face-to-face interviews? Marc Romanelli/Blend Images/Getty Images Having a set of predetermined written questions has certain advantages whether responses are oral or in writing. If you ask the same questions of each respondent, you can accurately compare answers and even statistically analyze these answers. You can come up with an average answer or compare answers between two (or more) specific groups (and conduct more complex statistical analysis, if the situation warrants it). For example, suppose you ask people to rate your product on a scale of 1 to 10. The average rating might be 6.5, with 10 being high. This is nice information to know, but what could you find out by reexamining the data? What is the range of answers? If it is 5 to 8, you know that most people have similar feelings about your product—better than average but not perfect, with those at the 8 level being relatively pleased. It might take just a few tweaks of your product to move that average up to 7.5 or higher. What if the range were from 1 to 10? Now you have people who love your product and others who hate it. It would likely take tremendous changes to convert those 1s to higher scores, and those changes might end up alienating the 10s. You now have a whole different scenario from when the range was small. What if you subdivided the answers based on some demographic value? For example, maybe you could sort by sex, age, wealth, or race. If you subdivide your answers into male and female, for example, you might find out that the average male response was 3.4, while the average female response was 7.8. If your product were a new skin lotion with a floral fragrance, you would expect women to like it better than men. If you thought the fragrance was neutral (and you should have asked this in your questionnaire), maybe you will want to revise the scent or simply focus on the target market that likes it, the women. There are two major types of questions used in surveys: open- and closed-ended questions. One frequent type of closed-ended question—the scalar question—was illustrated earlier: “On a scale of 1 to 5, how would you rate XYZ?” Dichotomous questions are those with two choices—gender, employed or not, and so on. Categorical questions give you several predetermined groups from which to choose—for example, age levels (under 20, 20 to 29, 30 to 39, etc.). Open-ended questions allow the interviewees to answer any way they wish. Instead of asking “Do you like XYZ?” (a question that can be answered yes or no) you could ask, “What are the advantages of XYZ?” With closed-ended questions, which can be answered only in certain

ways, it is much easier to compare groups and to statistically analyze. However, they can limit the information you get. Let's say that your research shows that many people are concerned with the quality of their lawn service. What does this mean? One woman may believe that the trimming isn't as accurate as she would like, while a man is upset because the service ruined his in-ground sprinkler system. A simple 1–5 scalar, closed-ended question wouldn't capture this information. Open-ended questions—"What do you dislike about your current lawn service?"—would.21 Open-ended questions, which can be answered in many ways, can help you find new niches and perfect your product or service before you introduce it. Stephanie Kellar (www.lashoutpro.com) had an idea for a new eyelash curler. She posted open-ended questions on a Usenet newsgroup called alt.fashion. In just a few months, she had collected information from over 100 people with minimal effort. She also used this venue to find people willing to test her new product in the development phase.22 Today Stephanie would use Facebook or Twitter, but the process would work just as well. Page 303 As Kellar found out, polling a group of consumers with common interests on the Internet is an inexpensive way to do marketing research and to find potential new customers for both test markets and the real thing. Today you can post questions on your social media accounts, or on sites like Quora.com to get answers, or you can use paid samples on Amazon Mechanical Turk, SurveyMonkey.com, Qualtrics.com, AYTM.com (Ask Your Target Market), and GutCheckIt.com. These services can generate results in one to two days based on your criteria, often for $500 or less. A great example of this using Amazon Mechanical Turk can be found online at https://customerdevlabs.com/2012/08/21/using-mturk-to-interview-100-customers-in-4-hours/. Open-ended questions provide data that are more difficult to tabulate; they take considerably more time to ask and evaluate, and answers can be difficult to compare. For example, if you asked "How often would you use this product?" you might get answers such as "some of the time," "two or three times a month," or "whenever I have guests." Are those answers the same? If not, which one reflects a heavier user? In this case, a categorical question (once a month, 2–3 times a month, 4–5 times a month, etc.) would be easier to interpret. Open-ended questions are best for gathering preliminary information, when samples are small and when there are data that are difficult to get any other way. You can get a feel for the strengths and weaknesses of each type of question from Experiential Exercise 11 at the end of the chapter. Last, you need to recognize that there is no such thing as perfect information. People say one thing and do another. They may like your product but consider it a luxury item that they may or may not purchase. Things are constantly changing, and no one can understand all the interrelationships and how they might affect a business. There are always more questions that could be asked, and more data that could be collected. Look for support for your ideas, but understand that the best you can do is make a good, educated guess. SMALL BUSINESS INSIGHT GrandKids23

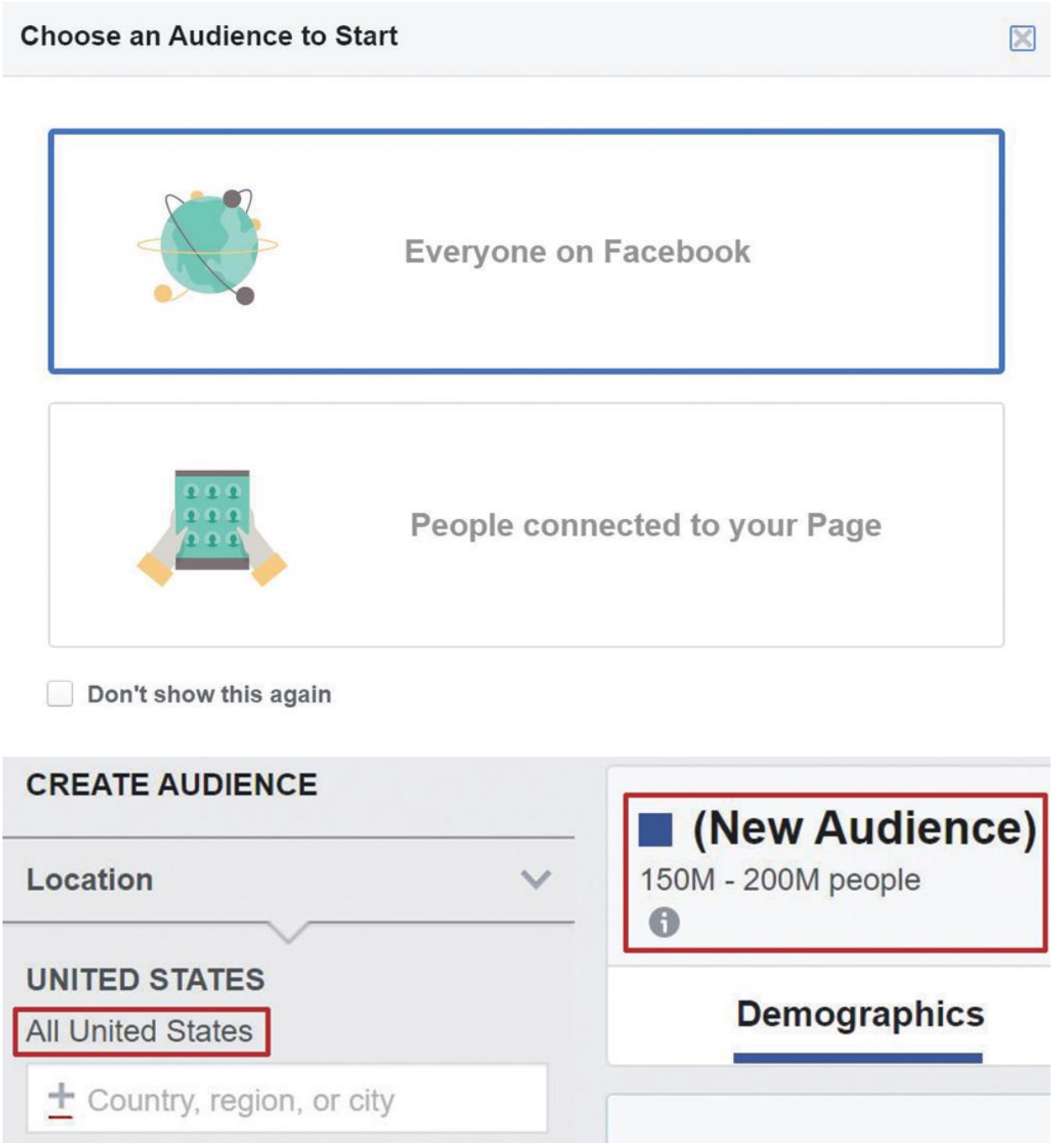
Irene Viento thought she had done things right. She decided to start a retail outlet, GrandKids, to target grandparents—especially those who had money to buy extra special things for their grandchildren. Viento had experience with this target group, being a grandmother herself. She studied the demographics of Pelham, New York, her hometown, and relying on school data and information from an advertising circular company, she estimated that there were about 10,000 families in the area. Although there were 10 direct competitors within eight miles, there were none in Pelham, an upscale New York City suburb. She found a location just outside of town and started her business in 1994, but she had to close her doors by 1997. Basically, her research was flawed: Pelham had only slightly more than 3,200 families and the largest age group was in the 22–49 range—not the grandparents Viento needed. She also didn't know whether her potential customers were willing to drive to her out-of-town location, and if they were, wouldn't they be just as apt to visit her competitors? There are volumes written on how to write good questions and how to gather and analyze data scientifically. If you are expecting people to invest huge sums of money in your business, your data had better be accurate and correctly gathered (see the Small Business Insight). In order to accomplish this, study a good marketing research text or hire or enlist outside help. Most small businesses don't need to be quite so formal; potential investors will let you know where they need more information and what they want to see. Today there are multiple online survey platforms that can help you put together professional-looking marketing surveys for free on the web, your smartphone, or even on your Facebook page. They will often have example surveys put together by their experts to help you get started. Most will let you obtain responses for free from 100 people (in some cases more). The Learn More Online box below lists websites where you can build and distribute your surveys for free (some limitations apply). As you understand the sort of questions you would like to ask, you could build your own free survey with unlimited numbers of questions and respondents using Google Forms. Page 304 LEARN MORE ONLINE Learn more about the topics above at these sites: Survio product evaluation survey: www.survio.com/survey-template/product-evaluation-survey Sogo product evaluation survey template: www.sogosurvey.com/survey-templates/customer/product-evaluation-survey/?type=individual Typeform customer feedback form template: www.typeform.com/templates/t/customer-feedback/ Facebook survey: www.facebook.com/simple.surveys/ Other sources include your local Small Business Administration office or SCORE (www.score.org) office, a marketing professor at your school, or a school marketing club. Also note that colleges often offer students free access to online survey platforms such as Qualtrics, which has an excellent product evaluation template. Secondary Research Secondary research refers to using existing data or databases to gather information on the topic of interest to you. Every Google search you do is an example of secondary research—Google finds information based on your search

query and you look for relevant data in the lists of links Google gives you. As you can see, secondary research is often free and quick; there is no need to design questions and gather information yourself. Problems with secondary data, which apply to your Google results too, include that the data may not be timely and you don't always know why the data were gathered and whether they were gathered correctly (biases). Sometimes it is hard to find the exact details you need. But because of its ready availability, speed, and potential for using high-quality data, secondary research is always a good approach to use and will often be able to at least tell you if you are in the ballpark. The challenge in secondary analysis is finding good data, meaning data that are gathered in an unbiased way, reported fairly, and are considered by knowledgeable people to be reputable. The most useful websites for finding fast and reliable secondary data for marketing research include: BizStats.com: Benchmarks, statistics, and financials for industries and the economy. Economic Census (www.census.gov/programs-surveys/economic-census.html: Sales, payrolls, employees for all industries. Also contains considerable detail on costs and characteristics (e.g., type of cuisine for restaurants) for individual industries. Expenses and Expenditures: The old business expenses survey covering wholesale, retail, and some service industries has been replaced and the new surveys are available at www.census.gov/topics/business-economy/expenses.html. The successors to the Capital Expenditures Survey covering major expenditures for most industries and the survey on Information and Communications Technology Expenditures are also found on this page. E-Commerce Statistics (www.census.gov/programs-surveys/e-stats.html): Overviews of performance and prospects of the Internet industry. Population and Household Statistics: Following the technique used in Skill Module 11.2, you can look at a wide variety of household statistics obtained by the government (e.g., income, education, computer ownership, health insurance, housing costs, number and age of family members, etc.) and made available to us on the Census website as well as on many commercial websites, including some free ones like www.zipWho.com and www.City-Data.com. Commercial services that offer information (and in some cases may be the only source for the data you need) abound. Check with your school's library to see which databases they subscribe to and obtain a quick introduction to using them from your library's reference librarian. Examples include Mintel.com (focused largely on consumer data), IBISWorld.com (focused largely on industry information), Freedonia.com (B2B focus), or Statista.com as well as general-purpose business data sources like LexisNexis or ProQuest's ABI/Inform (www.proquest.com/products-services/abi_inform_complete.html). Page 305 Supplementing these commercial databases are free databases on the major social media sites which can give you extraordinarily detailed information on users of the specific social media platforms, like Facebook and Instagram as well as Google sites. You can learn more about these at https://adespresso.com/guides/.Skill Module 9.5 below shows how to use

Facebook's Audience Insights to zero in on customers of companies you might consider competing with. SKILL MODULE 9.5 Using Facebook Audience Insights For this exercise you need to have a Facebook account. Google "Facebook audience insights" or go directly to www.facebook.com/business/insights/tools/audience-insights. You'll need to sign in to your Facebook account to get to the page. 1. From the "Choose an Audience to Start" box select "Everyone on Facebook": Facebook 2. For now, let's keep the "All United States" as location. Note the size of the (New Audience), which is 150–200 million people. This is the number of people who use Facebook in the United States in a typical month. Facebook 3. Note you can select Facebook users by age, gender, interests, connections (to your Facebook page), or other "Advanced" ways like work, education, or life events: Facebook 4. Let's get to work. Our focus is on a prepared meal kit using hyperlocal ingredients intended to launch in the St. Louis market, and would initially be aiming at people from 20 to 44. It would be called "LouBox" after St. Louisans' slang for their town. 5. The key for this (as for so many Facebook searches) is in the "Interests" box. Let's start by typing in "meal kits." No matches appear so the term just sits there. Hitting return does nothing. We hit a dead-end, but there are alternatives. So, let's try the names of some of the biggest meal kit makers in the United States, starting with Blue Apron. Google "meal kits." For this Skill Module we chose www.pcmag.com/picks/the-best-meal-kit-delivery-services for the list and tried all the names. The ones that had matches (i.e., audiences) in Facebook were AmazonFresh, Blue Apron, HelloFresh, Home Chef, Plated, and Sun Basket (see the blue box below). These result in an audience of several million people a month across the United States (see the red box; the numbers you find will likely be different because of changes in the market and Facebook): Facebook 6. Let's narrow this down to the St. Louis market. In the "Location" box, type in "St. Louis" and select it from the resulting drop-down menu: Facebook This produces a market of tens of thousands of people a month: Facebook 7. You could refine the ages to the 20–44 age range, which will reduce the audience of Facebook users every month: Facebook 8. You can save your work, and name the audience you've create, to make it easier when you come back. Use the menu above the "CREATE AUDIENCE" label: Facebook 9. You can check out the many hotlinks on the page to learn all sorts of details about your targeted audience, such as what sites they like for different categories and what are their most-liked pages (under the "Page Likes" tab). For a great example of how to use the range of data Audience Insights can provide, look at https://adespresso.com/blog/facebook-audience-insights/. Let us take a moment and see how you can use these resources to determine the three most important numbers for a marketing plan—the total size of the market (in terms of sales, or failing that, customers) for the geographic area of your focus, the typical price of a product or service like yours, and the typical profitability of that product or service. Page 308 Size of Market Market size is typically given in one of two ways—the number of people in a market

or the number of businesses in the industry . We'll show you how to do both next. People Counts Recall we introduced the TAM/SAM/SOM set of nested terms for the market sizes earlier. The terms are described again here, but this time we've added examples based on the idea of a high-end women's shoe store in St. Louis (like one developed in the Chapter 7 Appendix) to show how size counts work: Total available market (TAM): This represents everyone who might consider the product or service you're offering. For a U.S.-based women's shoe store, the TAM is 50.8 percent of 327 million people in the United States, or 166 million women, based on statistics from the U.S. Census Bureau's QuickFacts page: www.census.gov/quickfacts/fact/table/US/PST045218. Serviceable available market (SAM): This represents customers within your geographic reach. For the women's shoe store, this would be in general the female population of St. Louis, or 159,082, which we can get using www.city-data.com/city/St.-Louis-Missouri.html Serviceable obtainable market (SOM): This is also called your target market and represents the customers that you think would be interested in your particular product or service. For the high-end women's shoe store, the SOM would probably be women with higher incomes. Use www.city-data.com/income/income-St.-Louis-Missouri.html to get income figures for St. Louis. For St. Louis, we see that the median income is $41,441 and 13 percent of households have incomes of $75,000 or more (which would be one way to think about high-income). Taking 13 percent of 159,082 women in St. Louis would result in a SOM of 20,681 women. Penetrated market (PM): Doesn't apply because your store hasn't started yet. Business Counts When you are looking at a store level (for example, a women's shoe store), the Census's Industry Statistics Portal (https://census.gov/econ/isp/index.php) can often give you what you want. Enter the NAICS code 448210, and you will be taken to a page showing "Guide to All Census Bureau Data Sources for This Industry." Select "ECONOMIC DATA IN AFF" on the left-hand sidebar and you'll see the page shown in Figure 9.4. Choose "County Business Patterns" and the line with "Geography Area Series: County Business Patterns." For Figure 9.4. we looked at the 2016 data. For shoe stores in general (NAICS code 448210), there were 24,693 shoe stores across the United States in 2016. You can look at Skill Module 7.2 "Finding Your Firm's Industry" in for details on finding NAICS codes. These stores employed 238,361 people (9.65 employees per store on average), and paid these folks $4,005,605,000 in payroll or $16,805992 each, which suggests these were mostly part-time positions.24 FIGURE 9.4Selecting the 2016 Country Business Patterns Report on Shoe Stores from the Census Industry Statistics Portal Source: United States Census Bureau Page 309 Notice that we did not find any measures of the number of customers. The Census Bureau has revenues for businesses in the Economic Census as well as the County Business Pattern reports mentioned above. Revenues for local businesses in your industry can be found in the Census Business Builder (https://cbb.census.gov). You can also look at commercial databases like Mintel or contact one of the trade associations

(e.g., National Shoe Retailers Organization, found using a Google search for two words—"association" and "shoe"). You could also look for a trade magazine on the shoe or fashion or athletic wear industry and find a report on the industry (these often occur yearly in a particular issue). Prices The easiest way to find selling prices for products these days is on the Internet. Sites abound for consumer products, like Google shopping (www.google.com/shopping) or Amazon.com. Today even industrial products can be found using these comparison shopping engines, although there are specialty sites like Purchasing.com, or eBay Business & Industrial (www.ebay.com/rpp/business-industrial). For services, there are sites like Upwork.com, Freelancer.com, Fiverr.com, or Workhoppers.com that sell services online and give you some idea about prices, although these will be far more variable. Typically you can see what contracts have been posted, and get an idea of the basic charges for services. A better approach is to ask potential customers what they are currently paying (and what they get for their money). Profitability While the profitability of any particular store is nearly impossible to find, industry standards for profitability are easier than most people realize. For example, we have talked repeatedly about BizStats.com. Go there and look at the benchmark box at the lower half of the page, then scroll down to the closest category. In the "Annual Sales" box enter $1000000 as the average sales for your proposed shoe store. Select "Corporations" as the form of business and click "Submit." The major industry is "Retail Trade" and the specific industry is "Clothing-Clothing accessories stores." The resulting table tells you the net profit is 15.33 percent. This number is a ballpark estimate, since it is not specific to shoe stores, much less women's shoe stores, and does not even consider location. The numbers it gives are averages. More important to your plans, the profits reflect an average of stores where the vast majority of them are older and more experienced than you are at this point. As a result, the 15.33 percent tells us what you could make once you learned the business and solved the problems that others have mastered. Still, as a starting point, the BizStats numbers can give you an idea. Page 310 It is wise not to depend entirely on one source when performing secondary analysis. In fact, there are other, more detailed sources available in your college or public library. These include the Risk Management Association's (formerly Robert Morris Associates) Annual Statement Studies, Dun & Bradstreet's Industry Norms and Key Business Ratios, or Leo Troy's annual Almanac of Business and Industrial Financial Ratios. All of these sources offer breakdowns of financial information based on the sales of firms, which can help you get a better idea of costs for the newest and smallest businesses. Also, they are widely recognized and respected by bankers, and are probably the sources for the financial ratios and sales numbers they will look up when they benchmark your business, so it makes sense to check those sources too.


Choose an Audience to Start
Everyone on Facebook
People connected to your Page
Don't show this again
CREATE AUDIENCE
Location
UNITED STATES
All United States
Country, region, or city
(New Audience)
150M - 200M people
Demographics

Audience Insights
Age and Gender
Age
18
Any
Gender
All
Men
Women
Interests
+ Interest
Connections
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People Connected to
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Language
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Education
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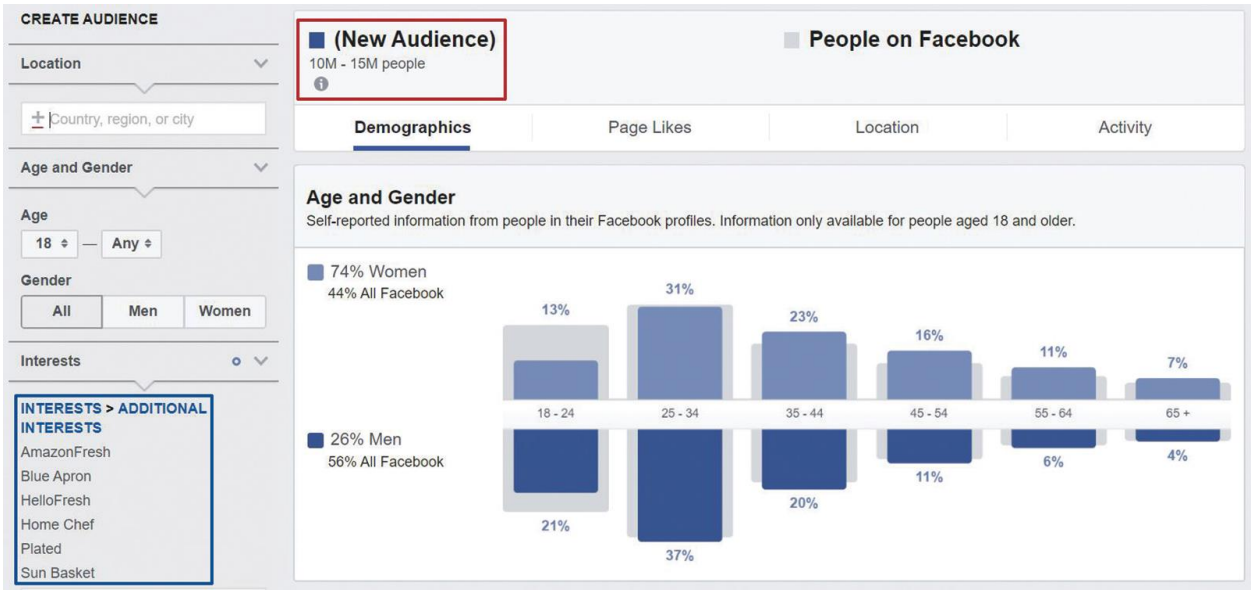
Market Segments
Parents
Politics (US)
Life Events


CREATE AUDIENCE
Location
Country, region, or city
Age and Gender
Age
18
Any
Gender
All
Men
Women
Interests
INTERESTS > ADDITIONAL INTERESTS
AmazonFresh
Blue Apron
HelloFresh
Home Chef
Plated
Sun Basket
(New Audience)
10M - 15M people
People on Facebook
Demographics
Page Likes
Location
Activity
Age and Gender
Self-reported information from people in their Facebook profiles. Information only available for people aged 18 and older.
74% Women
44% All Facebook
26% Men
56% All Facebook
13%
31%
23%
16%
11%
7%
18 - 24
25 - 34
35 - 44
45 - 54
55 - 64
65 +
21%
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20%
11%
6%
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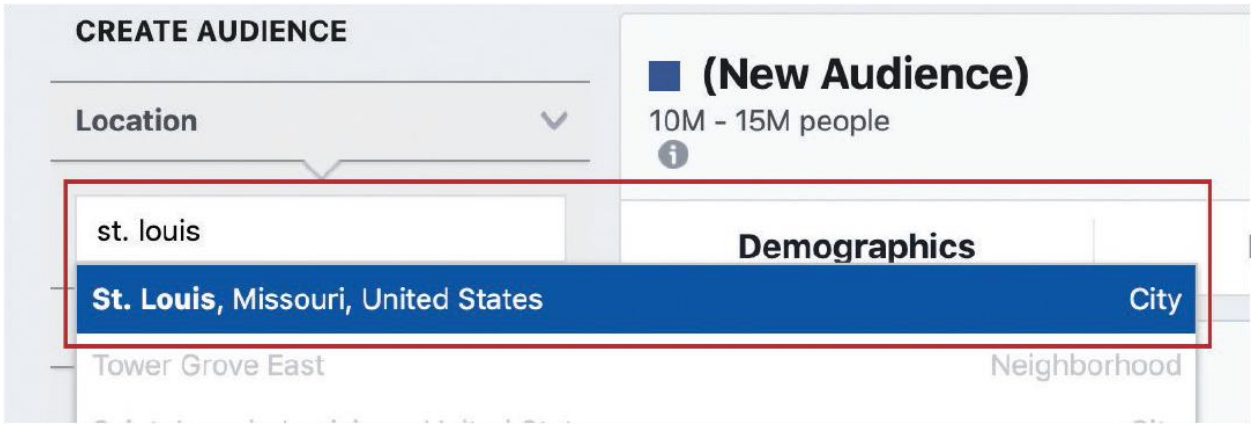
CREATE AUDIENCE
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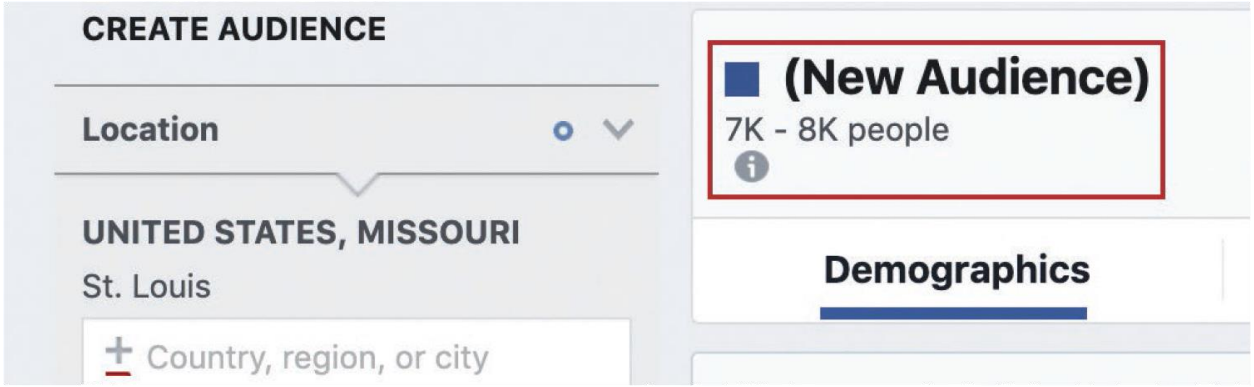
st. louis
St. Louis, Missouri, United States
City
Tower Grove East
Neighborhood
(New Audience)
10M - 15M people
Demographics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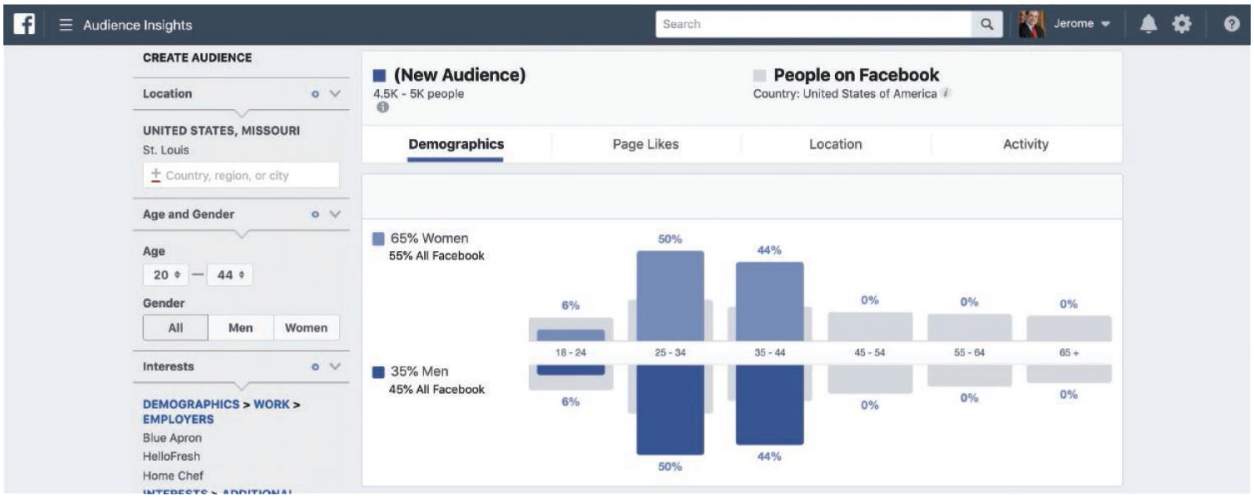
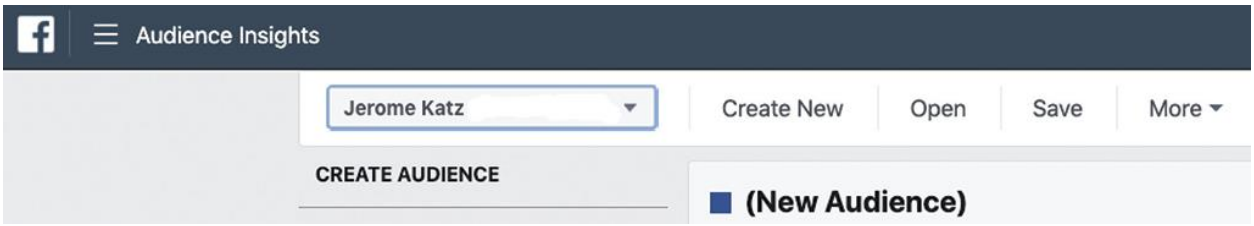
St. Louis
Country, region, or city
(New Audience)
7K - 8K people
Demographics





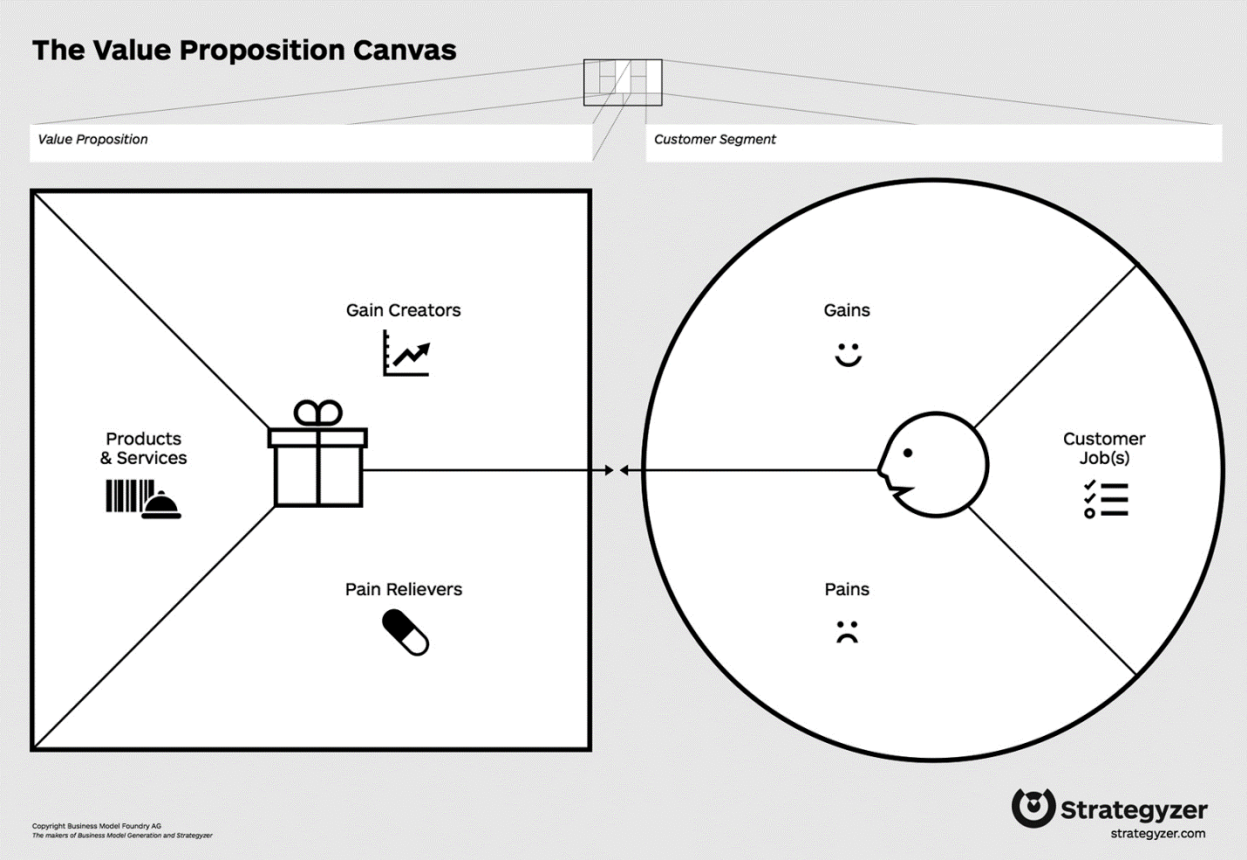
You are here: Census.gov › Business & Industry› ISP
ISP
Industry Statistics Portal
Business Data from the U.S. Census Bureau
2012 NAICS: 448210 - Shoe stores
GUIDE TO ALL DATA SOURCES
ECONOMIC DATA IN AFF
DEFINITION & COMPARABILITY
2012 NAICS SEARCH
Enter a NAICS code or Title
Links to Economic Data for Programs Published on AFF
Program
Series
Table Title
Data Years Available
County Business Patterns
Geographic Area Series
Geography Area Series: County Business Patterns
2016 2015 2014
2013 2012 2011
2010 2009 2008
Geography Area Series: County Business Patterns by Legal Form of Organization
2016 2015 2014
2013 2012 2011
2010 2009 2008
Geography Area Series: County Business Patterns by Employment Size Class
2016 2015 2014
2013 2012 2011
2010 2009 2008
Geography Area Series: County Business Patterns for Puerto Rico and the Island Areas
2016 2015 2014
2013 2012 2011
2010 2009 2008

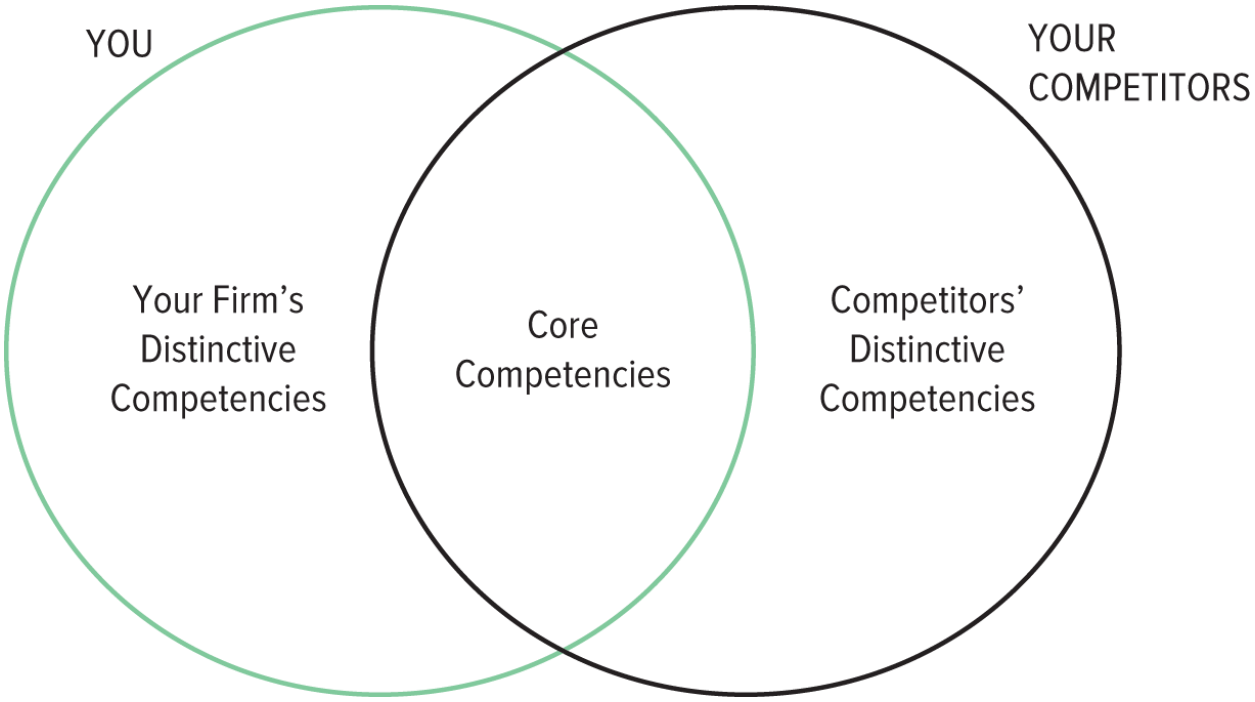
The Basics: Crafting Your Value Proposition 9-5 Develop your value proposition. Chapter 7 introduced the idea of value and cost benefit. This will be further developed by talking about your total product later in this chapter. But to give you an early glimpse of what will be discussed, your total product is not just the bare-bones object or service you provide,

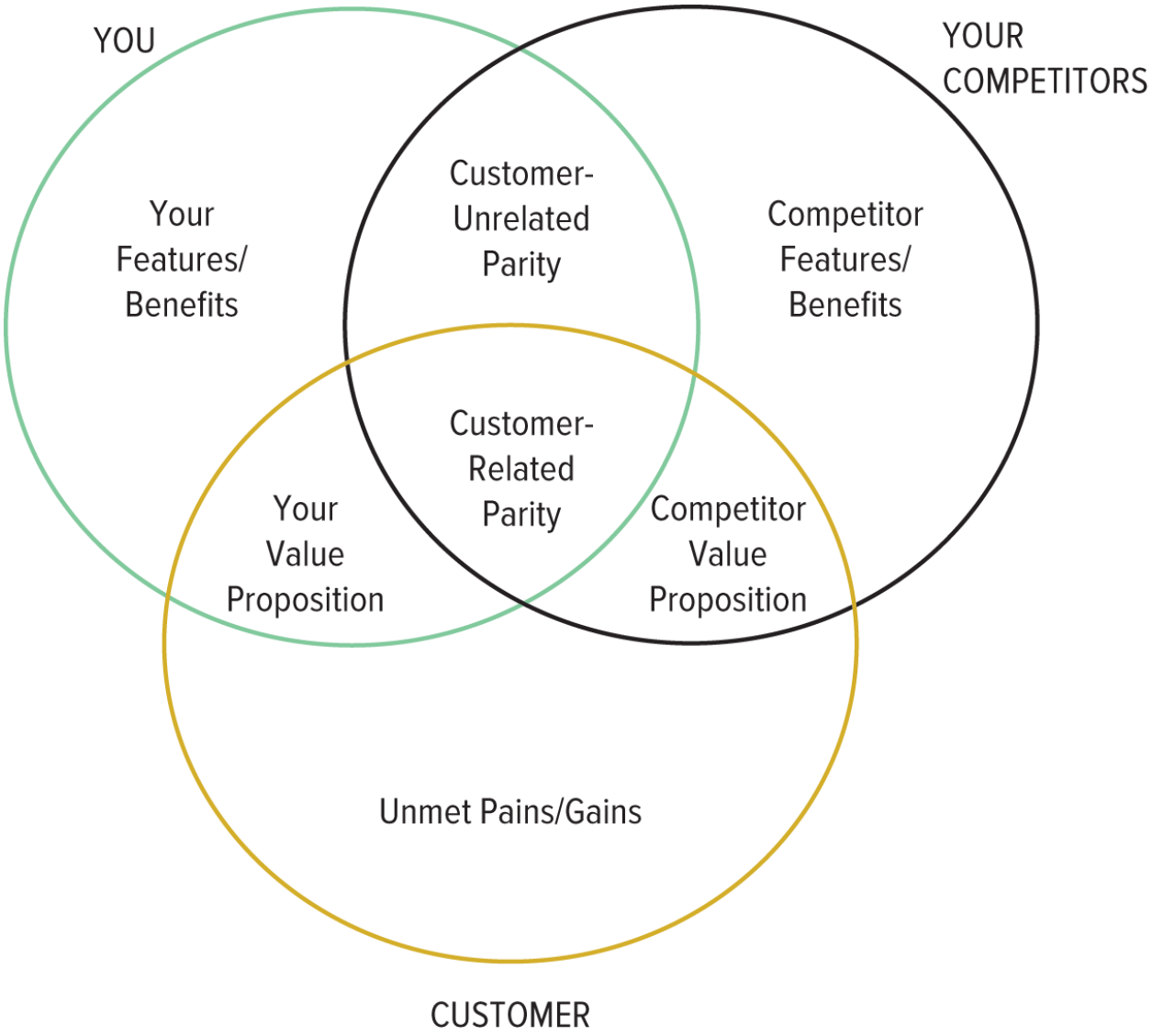
but what it means to your customers. You don't just do a great job cleaning houses; you provide free time to your customers. You don't just sell desks; you handcraft beautiful and functional desks in exotic woods. You can talk about your competitive edge—what you do better than your competition—or your distinctive competence—what you do that no one else does, but what is missing when we talk about those competencies is the benefit to the customer of all that capability. The relation of product or company capabilities to customer pains and gains is the value proposition25 you offer your customer. Skill Module 9.6 shows you how to organize your value proposition and relate it to your customer profile. SKILL MODULE 9.6 Customer-Focused Value Proposition Design The customer profile you created in Skill Module 9.2 becomes the basis for this exercise. In that profile, you talk about the job the customer is trying to get done, and the pains and gains he or she feels while trying to do the job. Using the graphic for the Strategyzer Value Proposition Canvas,26 we can map them, putting each idea on a separate sticky note in the sections of the right-hand circle. Source: Strategyzer, http://businessmodelgeneration.com/canvas/vpc. The second step is putting your proposed product or service in the left-hand section of the left-hand box. Then add sticky notes with the specific benefits you will offer, split into "gain creators" and "pain relievers." Your three tests of this approach are (1) how closely your product or service fits the customer job, (2) how many customer pains you solve, and (3) how many customer gains you can provide. Your goal is to have a product/service that closely fits the customer segment's situation. Exceeding what the customer wants is great, but you want to make sure you cover the major pains and gains they report. With this in hand, you can move onto crafting your value proposition as you will describe it in your marketing efforts. Source: Strategyzer, http://businessmodelgeneration.com/canvas/vpc Page 311 The chances are that there is more than one feature or benefit in the "Your Value Proposition" section. The challenge now is to boil down those multiple items to one short value proposition mantra. Recall we introduced the idea of mantras in Chapter 8. Value propositions are generally focused similarly—one clear idea that describes the benefit you offer your customer and powerfully resonates with them. Note we say benefit and not feature. Customers buy a product or service because of the benefits they get from using your offering to get their job done.27 To get to your value proposition mantra, list those needs only you meet and look for a way to draw a commonality from among them. If it helps, BMWs offer superior pickup and handling over any competitor; how does the automaker combine those? Remember its tagline: BMW—the ultimate driving machine. There are several useful ways to craft mantras.28 Think of Red Jett Sweets from the business plan at the end of Chapter 8. Given the cupcakes were made of the finest ingredients, were rich and tasty, and were certain to satisfy your cravings, the company's mantra could have been: "Red Jett Sweets are Godivas of the bakery world." A slightly different approach comes from Steve Blank who tells us to do something along the lines of

“We help X do Y by doing Z.” For Red Jett Sweets, this would have been stated as “Red Jett Sweets satisfies your desert cravings.” Eric Sink suggests a model based on Superlative (why) – Label (what) – Qualifier (who), so Red Jett Sweets would have come out as “The finest cupcakes for the best times.” Some entrepreneurs prefer a longer value proposition in order to cover points they think are worth including, like competitive advantage. Skill Module 9.7 gives the details of how to craft a longer value proposition. SKILL MODULE 9.7 Developing a Value Proposition Choose one small retail business (e.g., children’s clothing store, pet store, independently owned hair salon, restaurant, etc.). Using promotional and advertising material, level of service, in-store displays, location, and any other information available (website), create a value proposition for that business. The goal of this value proposition is to create and occupy a space inside the target customer’s head. Create a value proposition for your chosen small retail business by replacing the text in parentheses below as it reflects the product, market, and strategy. For (target customer) Who (statement of the need or opportunity) The (retail business name) is a (product or service category) That (statement of key benefit—that is, compelling reason to buy/purchase) Unlike (primary competitive alternative) Our business (statement of primary differentiation) Is available (where) This would be the workup for Red Jett Sweets: “For the person who wants a moment of sweet indulgence, Red Jett Sweets provides traditional and unique cupcakes that can fulfill any taste and make any moment brighter." Now place the answers in paragraph format to arrive at the overall value proposition. Feel free to share your perception of the proposition with the actual small business owner. Page 312 There is one more important way to think about the value proposition, and that is in comparison to competing firms and their products and services. You might recall Figure 7.3, which showed the relationship between your product or service, your market, and your industry. Part of that depended on the distinctive competence of your firm, your product or service, which was covered in Chapters 4 and 7. The other part depended on the value proposition. The final goal for developing and testing your value proposition is how it stacks up against and will compete against the other offerings available to your customers. Here we will analyze both value proposition and distinctive competence using a mapping technique shown in Skill Module 9.8. SKILL MODULE 9.8 Coordinating Your Distinctive Competence and Value Proposition29 Start with the results of Skill Module 7.4 Mapping Your Distinctive Competence. Recall that you built out two circles: Now you add the “CUSTOMER” circle, overlapping the first two circles, to your map. Get ready to move features around! Start in the “CUSTOMER” circle by listing all the pains and gains your target customers have and the benefits they are seeking, based on your research. These would be summarized in your customer profile from Skill Module 9.2 and mapped out in Skill Module 9.6. Next, go to the items in the core competency overlapping section. Features or benefits that meet the pains or gains of customers get moved to the “Customer-Related Parity” section. Parity means

being basically equal. These are features customers want, and you and your competitors have them. The remaining items are ones where you and your competitors have parity, but these features or benefits aren't relevant to these target customers. If you have multiple customer segments, some of those features might be important to them. If not, these could be features that might be left out in future versions of the offering. Those features or benefits customers want, that your competitor has but you don't, go into the "Competitor Value Proposition" section. These are where you could lose customers, and one of the places to look to in the future to decide what features or benefits to add. Those features or benefits customers want that only you offer represent "Your Value Proposition." These are the most important features or benefits to stress in your branding, messaging, and marketing because these are important to your customers, and not met by your competitors. They are distinctive to you! What remains in the "CUSTOMER" circle are pains and gains, or needs and wants, that neither you nor your competitors currently meet. Those represent a potentially powerful set of opportunities to grow your offering in future versions. Page 313 With your value proposition developed, mapped to the customer, and mapped against the competition with your distinctive competencies identified, you are positioned now to think about your customer development process, which will structure the rest of your marketing effort.




YOU
YOUR COMPETITORS
Your Firm's Distinctive Competencies
Core Competencies
Competitors' Distinctive Competencies



Planning for Marketing 9-6 Understand how to organize marketing plans. In the following chapters you will learn about the 4 Ps of marketing—product, promotion, price, and placement. The goal is to create the specifics of the marketing strategy you will use to generate sales for your business. So business plans always have a marketing section. The content follows this chapter. Often the plan will describe the customer and their pains or gains (in the problem section) and the solution you propose—your product or service. So the parts that come out in the marketing section of your plan usually focus on how marketing will get done in terms of promotion, price, and placement—which reflects location and distribution. Marketing is one of the basic building blocks for your business plan and your road map to what you want to do; it can't be set in concrete.30 Successful businesses are constantly tweaking their marketing to accommodate necessary adjustments found during evaluation and control reviews, or to reflect new research, changes in the environment, changes in competition, new target markets, new

opportunities in promotion, new anything.31 In addition, on a regular basis (at least once a year)32 you should take the time to decide what you want to accomplish next—increase sales, introduce a new product, move into a new market, and the like—and revise your marketing plan to reflect this next step. Caryl Felicetta started her business, The Argyle Studio, an advertising and graphic design firm, without a marketing plan. After a year of haphazard growth, she and her partner did their first systematic review and marketing plan. With this plan, their business grew by 100 percent the next year and has averaged about 50 percent growth each year after that.33 While our focus is on building a marketing plan section for your business plan, you will also be doing the lion's share of the work you need for a stand-alone marketing plan. If you have already started your business, or are doing a business where you don't expect to do a full business plan, a stand-alone marketing plan might be useful as a way to better strategize about how you will get sales. Table 9.4 shows what each of these would require. Keep the table in mind as you discover the elements of marketing, and think about how you would apply them in your business, and in your business plan. TABLE 9.4 Marketing Plan OutlineTable Summary: Table divided into three columns shows various components of an effective plan for marketing. Column 1 notes the contents. Columns 2 to 3 are marked as: stand-alone marketing plan and marketing section of a business plan. Stand-Alone Marketing Plan Marketing Section of a Business Plan 1. Table of contents X 2. Executive summary X 3. Company description, vision, background X (earlier in plan) 4. Product/service and Industry X (earlier in plan) Product/service description X (earlier in plan) Value proposition X (earlier in plan) Industry description X (earlier in plan) 5. Marketing analysis X X Market and target customer X X Competition and competitive advantage X X Marketing strategy X X Overall strategy X X Pricing strategy X X Promotion strategy X X Place/distribution strategy X X Competitive plan (reaction to competitors) X X R&D growth plan or next steps X X 6. Marketing budget and projections X 7. Evaluation and control X 8. Appendixes X Page 314 Don't underestimate the power of marketing plans. For start-ups, they help define how the firm will build its brand and relationship with customers. For established businesses, the marketing plan becomes a key step in imagining how a firm might reposition itself and maintain its most important relationship, the one it has with customers. You've seen one famous example of this as Dove soap changed its advertising from using professional models to using regular people to promote its products as part of its "Campaign for Real Beauty." Crafting and implementing a marketing plan with the new approach gave Dove a way to think through the issues in the change, and implement a new advertising model that led to greatly increased sales, and customers who became much more passionate about its brand of soap. The soap remained the same; it was the marketing change that made the difference, and that change depended on a detailed marketing plan.34 If you are uncomfortable with the prospect of doing a marketing plan yourself, there's low-cost help

for you available in a number of ways. First, try the Small Business Administration (www.sba.gov) or the Service Corps of Retired Executives (SCORE) (www.score.org) for advice. Entrepreneur magazine (www.entrepreneur.com) has examples and a number of worksheets you can use to help you gather and organize your information. Last, contact a local community, technical, or four-year college (small business or entrepreneurship department if it has one; otherwise, the marketing department) or campus club in those areas and offer your company as a class project.35 (A small donation to the class or club should be considered.)

Product 9-7 Recognize the characteristics of goods and services. Goods versus Services A product, in general terms, is anything that is offered to the market to satisfy consumer wants, needs, and demands. This can include goods (like Red Jett Sweets's cupcakes, a car, a can of green beans, a DVD), services (haircut, divorce), people (political candidates, celebrities), and ideas (a political platform, an environmental message). Most people's first thoughts are to think in terms of goods or services, but these days most of the things sold are combinations of the two (see Figure 9.5) along what is called the goods–services continuum. Let's talk autos for example. If you need transportation customized to your needs, you could start with buying a car. That seems at first to be a pure good, but it is not likely to be. The car has tangibility; it is something you can touch, but your check also covered the cost of a warranty on the car, which is a service, and something intangible. If you included a satellite radio, or a cell service like OnStar, or an extended warranty, you have bought more services. Still, the vast majority of what you are paying for is for the car itself, so most car purchases would be an example of a good-dominated product. FIGURE 9.5Goods–Services Continuum • ZipCar autos for rent include all related services, such as insurance, making these cars a service-dominated product. Scott Mullen/Bloomberg/Getty Images But what if, instead of buying the car, you lease it. Then the leasing company owns the car and you are getting the use of it (a service). While you have the car you are responsible for gas and maintenance, so you are taking care of the tangible product, but it is in the context of the lease. Leasing a car is an example of a hybrid good and service combination. Taking this a step further, think about renting a car. The rental company takes care of maintenance and may even take care of the gas. You just pay and drive. New hourly rental car businesses like ZipCar.com and Share-Now.com rent you a car for 1 to 24 hours at a time and include all services, including insurance. With this model, the car becomes something more along the lines of a mobility service you control, or what marketers would call a service-dominated product. At the other extreme, there is the pure service of a cab. You get in and get transported to the destination of your choice. A car is involved, but it is in no way your car. You pay for the service only. The cab driver is responsible for everything else. This is something close to a pure service and since by

paying for the service you have nothing physical, that service you bought was an intangible product, whereas buying the car gave you a tangible product. Looking at these different types of personal transportation, you can probably see differences in how you would market them to customers. You may recall how these different products have been marketed to you (leasing versus buying, renting versus taking cabs, etc.). There are other differences among the five types of product. Car rentals show the problem of the perishability of services. If a cab goes without a fare for an hour, that is one hour of revenue that is lost forever—it literally perished. For the car sitting on the dealer's lot, whether it sells today or tomorrow, the dealer will recoup pretty much the full value of the car. These cars are nonperishable goods. That cab ride is also an example of the inseparability of services. The service you bought, the cab ride, can get delivered only when you get in the cab. The service, and your consumption of the service, happen at the same time so they cannot be separated. On the other hand, goods have separability of production and consumption. The car you bought could be a week old or six months old. For goods, production and consumption can be separated in time. • This restaurant is not making money from empty seats at the counter. Those empty seats reflect the perishability of service businesses. Those lost meals can never be made up. What other services do you see as highly perishable? Image Source/Getty Images Page 316 The fourth characteristic differentiating goods and services is heterogeneity. Products are generally thought of as homogeneous or consistent. They should have the same quality every time you buy one. Services, however, can be more heterogeneous. The quality of your haircut depends on which shop you visit and which stylist you use, and may even vary day to day depending on the mood of the stylist, how busy the day has been, whether you are the first or last client, and a hundred other factors. To solve this challenge, service firms use employee training, identical—or nearly identical—store layouts, employee uniforms, services offered, prices, automation, and the like to reduce heterogeneity. Those combinations fall between pure goods and pure services and have names, shown in Figure 9.5. The combinations also differ in how much they have of each of four characteristics. For most businesses, like Red Jett Sweets, there are elements of both goods and services in nearly every offering. You can test out your ability to handle these issues by trying Skill Module 9.9. For almost every industry, there are ways to offer your customer a good, a service, or a mixture of the two. In reality most of what we buy, and what small businesses make, are combinations of goods and services. Knowing, understanding, and playing around with the particular blend of goods and services in your particular offering helps you find your product's differential advantage and communicate it better to customers. SKILL MODULE 9.9 Facing Intangibility and Perishability Because service industry businesses are so diverse, there can be no hard-and-fast list of characteristics to use in facing intangibility and perishability. For example, we want a quick-service restaurant (like McDonald's or your local small

business equivalent) to provide a meal in a couple of minutes, but at a premium restaurant (like Ruth's Chris Steak House or your local small business equivalent) we expect more leisurely service. Similarly, most of us want that meal at pretty much the same time, so restaurants often are their busiest around noon or 6:00 P.M. That time sensitivity means that restaurant sittings are perishable. If you had an empty table at lunch, you'll never make up that money again. So put on your thinking cap and work in a team to come up with some ways to handle the problems of intangibility and perishability in one of the following service industries: A restaurant specializing in soup A website specializing in self-recorded music A bookkeeping firm A housekeeping service A rooftop cell-phone tower rental service An online sporting goods retailer An 800-number health advice service A home-based child care service A house-sitting service A business consultancy specializing in tax advice For intangibility, what kinds of symbols would help make your service seem more tangible to potential customers, and what kinds of qualities would help strengthen the customer benefit or value of the service? Test these out with other groups in class. For perishability, identify if there are times of peak demand for the service, and if there are limits to how many customers you can serve at once. If there are peak times or customer service limits, explain how you would organize your business to get the largest sales possible. Test these out with other groups in class. Page 317 9-8 Define the total product. The Total Product Approach Most products are combinations of goods and services. They have differing degrees of perishability, tangibility, heterogeneity, and inseparability. Understanding these characteristics of your good or service will help you better match it to your customers' needs and differentiate your product from those of competitors. But there can be aspects of your product that even you as its creator or distributor do not know about. In marketing, this is the difference between the total product and the augmented or core products. The total product includes the entire bundle of products and services that you offer, but is based not only on what you as the small business owner thinks about the product, but also about how customers think about it. An Alabama bottlemaking company discovered that one of the top 10 reasons customers liked its 16- and 20-ounce screw-top plastic bottles was because, when filled with water and enough rocks to sink the bottle, it makes a safer toilet tank space filler than bricks, which can break down when left in water for years. People learned about this on several green living blogs. We often know less than we think we do about customers, co-workers, or even those close to us. Try Skill Module 9.10 to test this out. The total product is how your customers describe your good or service, but there are two other ways to describe your product. What you describe as your product or service is your augmented product and has features that differentiate it from the competition. These features can include brand names, quality levels, packaging, and specific features of your product. In practice, it might sound like this when you are asked "What do you do?" "I run the Happy Housekeeper, a housecleaning business in the greater

Chicago area." SKILL MODULE 9.10 Learning about the Total Product of You Marketing is all about getting people to like your product enough to buy it. In a way, we market ourselves to others, doing a little bit of selling of ourselves in the hopes of getting another person to like us. When they do end up liking us, is it for the reason we pitched to them? This one is simple. Pick your spouse, boyfriend, or girlfriend and make a note to yourself why he or she likes or loves you. You can put down as many reasons as you want. This is your augmented product. Put away the note and, when you have a chance, ask why he or she likes you. If he or she gives you more than one reason, there is a very good chance it will be one not on your list. Those unlisted items are what distinguish the total product of "you" from the augmented product you described in your note to yourself. When you have a product for your business, repeat the procedure, this time asking customers why they like it. You will likely see the same thing happen. Page 318 Underneath the total product and the augmented product lies the core product, which is the basic description of what your company does. It is a variation of the NAICS code or industry description we discussed in Chapter 7. The company Red Jett Sweets's core product was cupcakes, the bottlemaker makes bottles, and the Happy Housekeeper is in the housecleaning industry. It is the most general description of your business, and the one that captures the smallest amount of what is special about your business. Why is the total product in particular important for you as a small business owner? First of all, your product means more to a consumer than just the core component. Sure, a housekeeper will clean your house, but this will give the consumer additional leisure time, might be a status symbol, and probably has other meanings for your customers. Merry Maids sends its personnel to your house in a distinctive van with the company's name plastered all over it; when your neighbors see the van in your driveway, they know that you are important/rich/busy enough to be able to afford this service. Second, as a small business owner, using the total product approach can help you get inside your customers' heads and figure out the most cost-effective "bundle" of value and cost benefits (see Chapter 7) to give your target market. Last, when you're designing the rest of your marketing plan, knowing what your product really "means" to consumers will help you set an appropriate price (Would driving a BMW mean as much if it cost only $10,000?), design effective advertising ("We give you valuable free time" versus "We clean your house"), and select the distribution chain that will successfully carry out some of your service components (such as delivery, installation, repairs, etc.). 9-9 Differentiate the stages of new product development. New Product Development Process An old Far Side cartoon describes an early (as in the cave dweller era) business failure. The product? Porcupine on a stick. Although meant as a joke, it should remind any entrepreneur that every product idea needs to go through the development process (illustrated in Figure 9.6) before it gets introduced. This process may take a few hours for simple products that are similar to existing products (commonly referred to as me-too

products) or may take years and years of preparation and testing, such as introducing a new pharmaceutical product. For me-too products, steps may even be skipped. FIGURE 9.6Stages of New Product Development Regardless of the pace you are able to move at, this is a necessary process; as noted earlier, the U.S. Patent Office issues about 100,000 patents a year, but only about 0.1 percent of those are profitable. Marketing and new product experts believe that most of the small business failures could have been avoided by following the new product development (NPD) process.36 Page 319 As discussed in Chapters 4 and 7, most businesses are imitative in nature, so the vast majority of new ideas for such businesses will be me-too products. If people are already using white ear buds for their music players, might they buy other colors? Probably, and the most likely colors are ones that match their clothes or their already-purchased music player cases. Does this require a lot of testing? Probably not.37 Most of the testing has already been done and public acceptance is pretty much ensured. Your me-too product needs to have a differential advantage over your competition—otherwise, why would you introduce it?—and this advantage may be the only thing you need to test. Customers are familiar with the product category, and some of them may already have been thinking about what they'd like to see different about the product or service. Much of the up-front testing can simply be polling existing users of the product and suggesting to them what you might see as an improvement. "I see you are using XYZ; what if I was able to sell you the same thing, but deliver and install it (or add or change features, etc.)?" Open-ended questions ("If you could change one thing about XYZ, what would it be?") might confirm your potential improvement, might point out other new ideas, and won't necessarily tip off the competition as to what you are planning to do. For goods, there is a cost for design and manufacturing as well as a delay, so trying out new products is more of a gamble. For service firms, it can be easier. Should a restaurant offer low-carb pasta? The cost is probably a case of pasta, or an even smaller amount of soy flour (used instead of the regular seminola flour) to make your own fresh. If no one likes it, it vanishes from the menu and blackboard. Cost? Twenty dollars for the case of pasta and reprinting the menus to drop low-carb pasta. For small businesses planning to pursue an NPD effort for a highly innovative product, the steps start with the process described in Chapter 4; let's review them briefly. Idea Generation38 Behind every great product is a great idea. The difficult question is where do you get the ideas? The traditional first idea generator—and often what gets an entrepreneur started—is something they need or want themselves and either can't find or can't find the way they want it. The new way to find opportunities is through the use of the SCAMPER approach as discussed in Chapter 4. Skill Module 9.11 provides you with an example of how to implement a simple SCAMPER application. SKILL MODULE 9.11 Creating Your Idea Notebook There are many products and services out there that we use regularly and often think that there's got to be a better way. Even with products and

services we like, we can often think of improvements that we'd like to see: Make a list of about 10 products or services you believe could be improved. Specify exactly what it is about each one that you do not like. Select 3 or 4 of the products or services and think of ways that would "fix" the "defect." (Assume you have relatively unlimited money and technology.) Use the SCAMPER approach. Talk to several friends and brainstorm to see if they have similar opinions about the product or service. Ask their opinion of your solutions and if they have any other ideas. Add all these to your "idea" notebook—and who knows? Many new products or services are "invented" because someone was unhappy with the available alternatives. Sometimes the technology isn't there yet; sometimes the solutions are too expensive to implement or make the product too expensive. Others are just waiting for someone to do something. Idea Screening Idea screening is the process of selecting the most promising ideas to be further evaluated for feasibility. Chapter 4 introduced the IDEO screening model that identifies what factors are important to consider when screening ideas to find the most promising ones. For each idea, these are the customer desirability, the technical feasibility, and the business viability. Page 320 Typically, the smartest idea is to generate multiple ideas and compare them head-to-head to help clarify what characteristics are important and which idea has the greatest potential. This comparison approach is shown in Exhibit 9.1 and is very simple. The ideas are listed across the top of the grid, and the important factors are listed vertically. Each idea is given a numerical score for each of the factors, and the scores are totaled. While you are likely to be one of the screeners, it is fine to let others in on this. One model created by World Innovation Network that is used by Innovative Product Technologies (www.inventone.com/) has purchasing managers evaluating a product. You can have friends with business expertise or people in the target market look and offer their opinions. Done this way, it is possible to screen out the less promising ideas and identify the ideas you want to take to the next stage, idea evaluation. EXHIBIT 9.1Idea Screening Comparison Factor Scale Idea 1 Idea 2 Idea 3 Idea 4 Offering—Innovative 1 (Low)–5 (High) 2 3 4 5 Offering—Uniqueness 1 (Low)–5 (High) 4 2 1 4 Customer—Market Need 1 (Low)–5 (High) 5 2 5 5 Customer—Market Size 1 (Small)–5 (Large) 3 2 1 3 Value Proposition Strength 1 (No) and 5 (Yes) 1 2 5 2 People—Quality 1 (Low)–5 (High) 1 2 2 5 Distinctive Competence 1 (Low)–5 (High) 5 2 2 5 Other Resources Needed? Count of Resource Types Needed 2 2 1 2 Total 23 17 21 31 Idea Evaluation Page 321 Idea evaluation is an exhaustive process of specifying the details of each idea's technological feasibility, its cost, how it can be marketed, and its market potential. Additionally, you should consider how the idea fits with the mission and goals of your business. A basic tool for idea evaluation is the feasibility analysis introduced in Chapter 4. Recall the components of a feasibility analysis: (I) The Business Idea, (II) The Product/Service, (III) The Business, (IV) Future Action Plan, and (V) The Financial Projections. These topics follow on those you considered in the idea screening, but cover

them in greater depth, based on library and Internet research, as well as discussions with experts and potential customers. As we saw in Chapter 4, while the hoped-for result is that the idea can be profitably produced and sold to a large and eager market, the more typical outcome of a feasibility analysis is one of these three: The idea cannot be economically made into a product or service. The resulting product or service works, but does not appeal to a large enough market (or is not worth enough to them) to make the effort profitable. The product or service works, has a market, and could be profitable, but you need to get additional people, funding, or other resources to make the idea into a successful business. Feasibility analysis is an essential step in the new product development process because it precedes a potentially large investment of your time and money into the creation of the key product or service of your business. Making sure the underlying concept is financially and competitively feasible is an important safeguard of your precious resources, and an important double-check of your own initial positive impression of an idea. Product Development Concepts that survive to this stage are ready for formal development. The first versions are called prototypes, or minimum viable products, and are used in further consumer testing. If you are just starting out (rather than adding a product to your product line), you may need to get a prototype made. Prototypes can be expensive, but there are a few shortcuts you can try. Study the manufacturing process necessary to make your product and see if you can't come up with a simplified "desktop" version. This is especially useful if you need to go through several iterations to debug your process. Jorge Lahens did just this to prototype a fragrance tab that hooks onto dog collars. He used Thomas Register (www.thomasnet.com/) to find companies dealing with scented plastics and learned all he could from them. He perused Inventor's Digest (www.inventorsdigest.com) and found information about how to set up a small-scale manufacturing model for just a few hundred dollars. Other sources of information include local inventor's clubs which are listed at the United Inventor's Association's39 website (www.uiausa.org) and The Inventor's Handbook which is available online for free from the Lemelson-MIT Program (http://lemelson.mit.edu/search-resources/45). • Rapid prototyping machines, like the one pictured, can create a wide variety of products to help potential customers and investors get a clear sense of what the entrepreneur is marketing. Izabela Habur/E+/Getty Images Page 322 For many, getting a prototype or sample built is the toughest hurdle. One suggestion is to rough something out using products from home, or a craft or art store. Seen at a distance, it will help customers visualize without having full details. Today, 3-D printers are widely and inexpensively available. Colleges, makerspaces, copy centers, commercial prototypers, even libraries offer inexpensive access. You can Google "find 3d printers near me" to get started. Today there are multiple free online and downloadable open source programs for 3-D drawing (the Learn More Online box below) that can produce the drawings necessary for a rapid prototype to be built. One advantage

of a 3-D printed prototype is that if you get suggestions from prospective customers about how to change the product for the better, you can quickly and relatively inexpensively revise and print the next edition of the prototype. You can get a great online introduction to 3-D modeling and printing at https://diy.org/skills/rapidprototyper. Google “3D libraries” to find repositories of 3-D designs for hundreds of thousands of items; it can give you a leg-up on your creation process. LEARN MORE ONLINE Learn more about the topics above at these sites: SketchUp online service with free personal accounts: Sketchup.com/plans-and-pricing/sketchup-free Blender free, open-source, downloadable, community supported: www.blender.org K-3D free, open-source, downloadable, community supported: www.k-3d.org If a university approach is not workable, realize that you can make prototypes out of anything. Joe Fischer used a cereal box to prototype Greetabl. You can wrap any box with your message to help people imagine it. You can use LEGOs, Popsicle sticks, pipe cleaners, and things you have around your room or house to prototype. You can ask others for help or advice (or materials). Prototypes don’t have to be elegant. Their purpose is to give the observer an idea what the product might be like. For services, the same ideas apply. You develop your service, often first with example projects you think of yourself, or creating a mock-up as in the case of a website. Make sure you set up the website so that it is not indexed by search engines until you are ready to start selling. Internet-based and app-based businesses are special cases of a service business because they are susceptible to the minimum viable product approach. In this, based on your customer research, you create the simplest Internet or app service that meets the needs of your target customers. You make it available (putting it online, or posting it to the Apple or Google play stores) and seek feedback from users while watching download and usage statistics. As you discover what needs to be fixed or changed, you quickly (literally within hours or days) create an updated version and post that, continuing this process until your Internet or app offering meets your goals for success. In one sense, these Internet or app businesses are like product businesses in that the ability to deliver the product often depends on having the programming expertise to create the app or website. That said, many basic websites, including blogs and e-commerce sites, can be built using attractive existing templates available from major hosting firms such as 1and1.com, goDaddy.com, or wordpress.com. In addition, basic apps can be built using templates or prebuilt apps from Xamarin.com, ibuildapp.com, or outsystems.com. You can find more firms in each of these areas with a quick online search for “blogging platforms,” “e-commerce platforms,” or “built apps.” Once the prototype is developed and tested, the product is ready for test marketing. Test marketing involves selling the prototype in either a real or simulated market environment. Standard test marketing introduces the product and the marketing strategy in the actual environment. Small businesses, for financial reasons, primarily choose smaller local markets and conduct fewer tests than their larger counterparts. While test marketing can

reduce the potential for failure and can identify weaknesses in the product, advertising, price, or distribution method, there are also opportunities for astute competitors to “steal” your ideas and launch before you do. More recently, simulated test markets have also been computer-generated. This is relatively safe from competitive interference, but, the biggest problem with simulations is that they are artificial and do not always reflect actual buying behavior. Also, for small businesses, simulations may be expensive—especially the traditional method. Page 323 Depending on your product, offering to deliver a service or giving samples to friends and family may be a convenient option for getting a test market type of feedback. They are less likely to tell your competitor, but they may try to spare your feelings if they don’t like your product. If appropriate for your product and if you are patient, you could pass out samples or provide the services to friends and family and then wait to see if they come back asking for more or refer friends to you; that’s a sure sign they liked it. Then see if they’ll pay you the next time they want a replacement. You may also be able to find (or belong to) a group that is willing to try your product and report back to you about how it works.40 Sometimes nonprofit groups (a church’s Ladies Aid, Friends of the Library, or something similar) might be willing to be a test market in order to gain a small donation toward one of their causes. If you are offering a service, they may be willing to let you test it out on them for free. Maybe the product would be appropriate for use at one of their activities, such as trying out your environmentally friendly detergent at a series of church suppers. Be sure to select a nonprofit that represents your target market as much as possible. One of the ways to leverage social media is to invite participants in the test-marketing effort to share their opinions on a private group on Facebook41 or LinkedIn. As they post their observations and see what others think, they are more likely to mention their experiences, and the exclusivity of their involvement as a tester becomes an additional benefit. If you’re not in business—or if you are in a very different business—prototyping and test marketing services are very difficult. Simulations work in some cases. Focus groups and concept testing, as discussed earlier in this chapter, work in others. Commercialization Commercialization is the process of making the new product available to consumers. In reality, most businesses creating a new product will not face problems with this step. If a rapid prototyping model can be developed, the molds for manufacturing can be made inexpensively by most modern manufacturers. However, if your product requires a truly innovative manufacturing process, you are looking at what is likely to be a multimillion-dollar undertaking. This is relatively rare. When the technology underlying the product comes from a university- or government-funded research effort, the small business may be able to get government financial assistance for commercialization through the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. Even adding qualifying intellectual property from a government-backed project to an existing technology you are developing might qualify your business for

SBIR/STTR funding. Find out more at www.sbir.gov. Even with support, commercialization is a risky process. Many weaker ideas have dropped out of consideration by the point of commercialization, but still only about 60 percent of all new product launches are successful.42 To play in this league, a small business may need to rent or purchase manufacturing space and equipment. Large companies may spend between $10 million and $200 million for advertising, promotion, and other marketing efforts during the first year of a product's introduction.43 A small business, especially a young one, cannot afford to spend that much money. That does not mean, however, that a small business cannot compete. (See the Small Business Insight box in Chapter 11, "The Story of Kryptonite.") By using contract manufacturers (see www.mfg.com for an extensive listing) you are utilizing the consignment approach discussed in Chapter 5, so look at the advice on making the most of these sorts of arrangements.44 If you are doing it all yourself, know that smaller firms generally introduce their products city by city or region by region in a gradual fashion until their potential market is covered—a limited rollout. Mistakes made in earlier markets can be addressed before rolling out to additional markets. However, limited rollouts also have the problem of allowing competitors to anticipate your movement into their markets and to counterattack. Page 324 Before leaving commercialization, think about the augmented product idea introduced earlier in the chapter. Whatever your new product is, me-too or radically innovative, the key is going to be having something unique about it that separates it from everything out there. The Innovation Index45 shows that since 1990, innovative products ran well under 10 percent of all new products introduced—and the index includes as innovative things such as reaching an unmet market, repositioning of a product, or even creative new uses. The point is that you can do—and probably will do—a me-too product, but it better have something unique about it that separates it from everything out there or you won't even get it on the store shelves.46 Product Life Cycle47 9-10 Consider the impact of the product life cycle. Just as firms go through life cycles, so do the products and services within them. Since the stages for products are very similar to those for firms, we will quickly review the four stages (Figure 9.7) in terms of their implications for managing your firm's growth. FIGURE 9.7The Product Life Cycle Stage 1—Introduction Most small businesses can only afford to launch a product on a small scale, so naturally the sales are low and profits not likely when a product emerges into the market. In fact, many traditional marketing techniques described will depress profits at the start more than they will at later stages. For all the marketing money being spent, the risks from competition in the introduction stage are generally low since most competitors will wait to see if your product is a threat and has staying power before they act. From a marketing standpoint, the more innovative the product, the slower the sales because fewer customers are comfortable with such products. Me-too products have an easier time gaining customer acceptance. Either way, the best sales method is to focus on the relative

advantage your product has over the competition. When possible show how easy the product is to use, and how easily or well it coexists with the other products the customer owns. For people who like listening to music from their smartphone, headphones were a way to listen wherever they were. Then along came earbuds, noise-cancelling earbuds and headphones. The cost of basic headphones and earbuds have dropped as the new products came to market and the number of headphone and earbud users skyrocketed, Along these lines, providing samples or demonstration opportunities will also help seed the product during this phase.48 It should be noted that not all products survive the introduction phase of the product life cycle. Some products may take too long to begin making a profit because of high marketing expenses. Other products simply never catch on with consumers and never sell enough to cover their costs. And in reality many products in this stage get revised based on customer reactions and reasons behind lost sales. For online services, such revisions can be done on an almost daily basis, and very inexpensively. For products, the revision process can take weeks and cost thousands of dollars. Either way it gets done, products that are successful move on to the growth stage. Stage 2—Growth Page 325 Like its firm counterparts of success and takeoff stages, during the growth stage acceptance of the product (whether innovative or imitative) increases rapidly. Think about Twitter. Although founded in July 2006, it had about 500,000 visitors by the end of 2007, 4.5 million visitors by December 2009, and over 500 million visitors by May 2012, to 2.8 billion visitors by May 2016 and almost 4 billion in May 2019. While Twitter doesn't charge for products that are sold, sales and profits during this stage grow at higher rates than at any other part of the product life cycle. Prices tend to drop as production becomes more efficient and competition increases. From a marketing standpoint, consumers are aware of your product and know how it will make their lives better. Products nearly fly off the shelf. During this stage, advertising and promotion are much less critical than in the introduction stage, but keeping up with production and ensuring good distribution become more critical. Often a particular toy becomes "hot" and production has a tough time keeping up with demand. At times like that, a $20 doll can go for $200 on eBay. Other marketing goals during this time are to maximize your market share and keep ahead of competitors, so this is when you try to get into all the markets you can nationally (or internationally). Stage 3—Maturity Once the rapid growth begins to slow down, the product enters the maturity stage. During this stage sales will level off, and profits follow suit, but remember, both should be at fairly high levels. Keeping both at that fairly high level is the challenge the small business faces. Since there are few new users for the product, most gains in market share are made by stealing customers from competitors. So you'll focus on defending the market share you have. As weaker competitors start to leave the market, you'll have opportunities to take their "leftover" customers. • Apple iPhone bluetooth speakers went through a fast three-year sprint from introduction to maturity due

to rapid adoption and rapid innovation. What other products or services can you think of that are in the growth stage? pianodiaphragm/Shutterstock For example, think about docking/charging stations with expansion speakers for iPhones and iPods. The first ones came out in 2012, with different ones being proclaimed “hot products” by industry experts. The growth phase came then, and with the growing opportunities, so came competitors. In 2016 a quick check of Amazon.com showed over 148,000 products. At that point, it was the peak for the speakers, which would signal that the maturity phase would be starting. The number of customers will probably remain flat for a while, and the number of competitors will go down because of increasing competition. Competition will increase because many of the people who want a speaker will already have one, so there are fewer customers and greater competition for the ones left. What can we expect for maturity-stage products? Price competition starts to rise, and manufacturers find ways to cut costs or introduce new features to keep or gain market share. Something as simple as coming out with new speakers in colors may spark customer interest and keep or gain market share. But the truly smart companies already realize it is critical to have new ideas in the pipeline now and to get them ready for commercialization. Later in this stage, you will see products available through outlets and outlet sites like Overstock.com. As of May 2019, Overstock.com had over 441 different bluetooth speakers available for sale. Page 326 Techniques used to bolster sales during this period include: Advertisements become reminder ads or extol new uses for the product; for example, Chex cereal being promoted as a party mix, rather than only as a breakfast food. Promotions (coupons, rebates, multipacks, etc.) flourish. Companies reposition brands to appeal to new markets, for example, Rembrandt toothpaste repositioned its product from being a smoker’s toothpaste to a low-abrasion, whitening toothpaste for kids.49 A product can stay in the maturity stage for a long period of time. While the technology of the product may be older, the product is comfortable for the consumer. A quality product that inspires brand loyalty, such as Murphy’s Oil Soap, can remain in the maturity stage for decades. Stage 4—Decline Once a product begins its permanent decline, this decline can be slow or fast, steady or unsteady. The bluetooth speakers dropped from 148,000 products on Amazon in 2016 to only 5,000 by 2020. This decline may come from competition in the mature industry, the introduction of a new technology, such as MP3s replacing music CDs, and before that vinyl records, or digital televisions replacing analog ones with 4K TV’s replacing the original digital ones. The decline may also be caused by a shift in consumer preferences, such as bell-bottom jeans going out of style. Whatever the reason for the decline, the characteristics of the decline stage remain the same. Both sales and profits fall during this stage. Advertising and promotion expenses are usually nearly eliminated at this point. Companies pare back their product lines and don’t market to less profitable segments in order to cut costs and squeeze as much profit out of the final stage as possible. Tab, a popular diet soda in the

early 1980s, is now available in only certain locations with highly loyal consumers, such as Cincinnati, New York, Atlanta, Phoenix, and Houston.50 Some products' decline is permanent. For example, with the switch in the United States to digital television in 2009, the analog television is pretty much dead as a product. On the other hand, many products go into decline, only to be resurrected in the future as styles come back to old standards, or when a company finds a new way to revitalize the product. Or consider the old disc-shaped record. The staple of music from the late nineteenth century held on until the early 1990s, surviving challenges by eight-track and cassette tapes, when it was eclipsed by the digital compact disc and later by MP3 files with online delivery via new retailers like iTunes and Rhapsody. But hard-core audiophiles started going back to traditional records in the twenty-first century, with 16-fold increases in sales from 2007 to 2018.51 The willingness to sell individual songs revitalized that type of music retailing. Similarly, hot rods were popular in the 1950s but became very much a niche product, carried along by that generation. But for the manufacturers of car customization and performance equipment, video games like Grand Theft Auto and movies like The Fast and the Furious spurred a widespread renewal of their industry as "rice burners or "rice rockets" became the hot rods of the new millennium. Service Life Cycle While services do in fact go through the same four stages—introduction, growth, maturity, and decline—it can be somewhat easier to extend the life cycle and to virtually eliminate the decline stage of a service. Primarily, this is because services are often much easier to change "on the run." You can add and remove items from menus, change service levels, add additional services, revamp your website, and otherwise modify your service bundle more quickly than those who are manufacturing products. You can go with a gluten-free menu to accommodate the current diet fads, just about as fast as you can have new menus printed or change your "daily specials" chalkboard. You can attend a seminar or course to learn about adding new skills and offer that service to your accounting or legal clients. Service changes can be done relatively quickly and, if they don't work out well, they can be removed just as quickly. Page 327 This process of on-the-run changes means that your service is starting new life cycles with each tweaking of its existing offering. The curves will look more like those in Figure 9.8, where curve 1 is the initial service bundle and curves 2–4 represent the incremental changes. While a major change (like from Italian food from Chinese) can bring a firm almost back to the starting point, in most other cases, the new service is on top of all existing services—has no impact on existing services—like adding a manicurist to your hair salon. FIGURE 9.8Service Life Cycle Similar to products, new services will take a little time to attract customers, and initial advertising efforts will be to educate your clients as to the benefits of this service (or, perhaps, that you now offer this service). As sales seem to level off, continue to remind your customers that you offer the service and why it's better than that of your competition. Eventually, as sales drop off, eliminate the service totally or perform it

only for those “old time” customers who ask for it. Using the Product Life Cycle52 Many of the challenges in using the firm life cycle or the industry life cycle from Chapter 7 apply to using the product life cycle. It is hard to know exactly where in a cycle a particular product or service might be. Let’s say Twitter’s visit numbers grew by only 5 million from December 2011 to March 2012, but then dropped by over 4 million in April. Is Twitter reaching maturity or is it a minor slowdown in a meteoric rise? No one at the time could tell for sure. A marketer must weigh many things before trying to decide what phase a product is in. Moreover, products often experience a “revival” as new generations discover them. Brands such as Oxydol, Fanta, Breck, and Ovaltine, after near extinction, are experiencing new popularity.53 Tattoo shops, a service that was nearly extinct, have started a new life cycle as styles have changed. At the other extreme, products like Murphy’s Oil Soap mentioned earlier, or Morton Salt, or Coca-Cola—have lasted for decades and show no signs of stopping. The bottom line is that you must be aware of the product life cycle and consider where your product might be and what that means, but you should understand that the determination can be imperfect and somewhat unpredictable. You should keep trying to decipher the life cycle stage because using the product life cycle gives you, as the entrepreneur, a way to think about your product, customers, and competition. If you follow the advice given here, it can help identify many of the likely issues and offer advice on how to handle these challenges in marketing your product.

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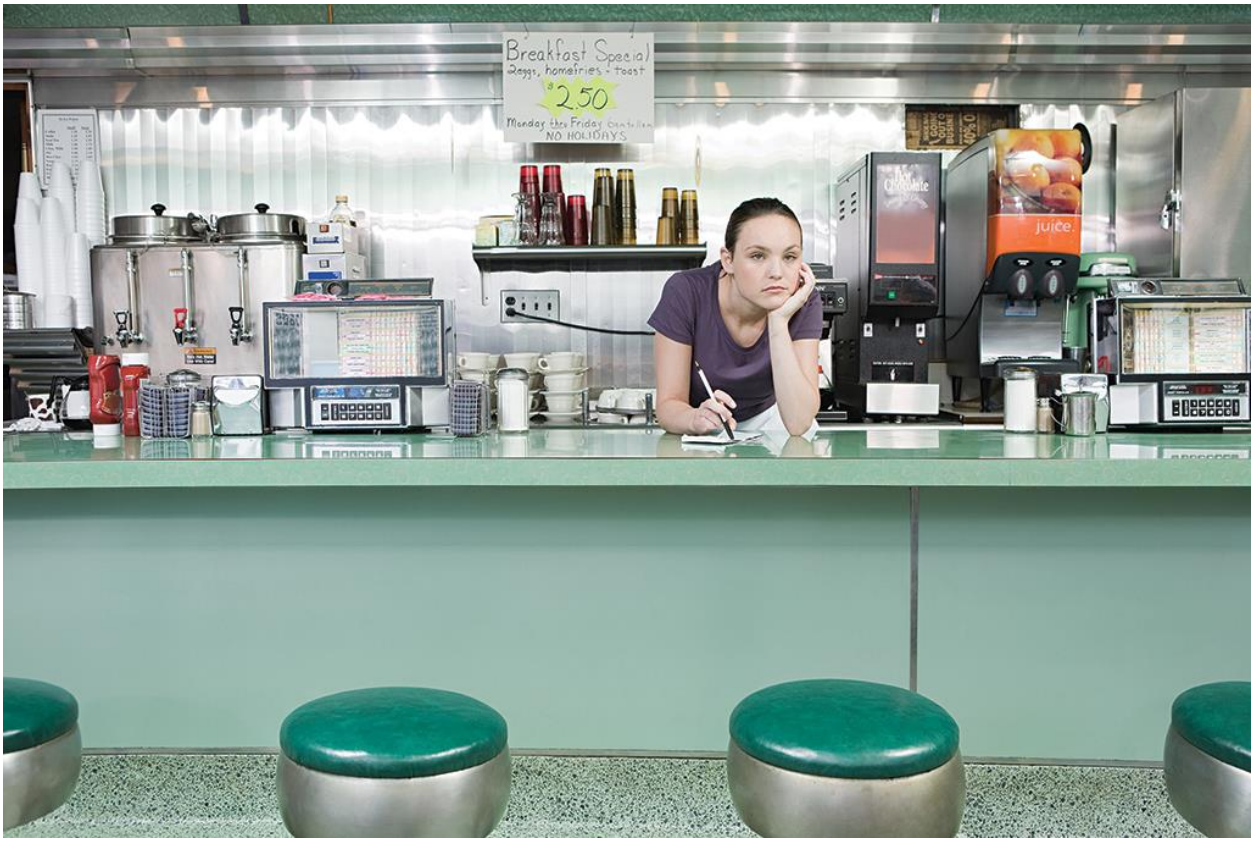
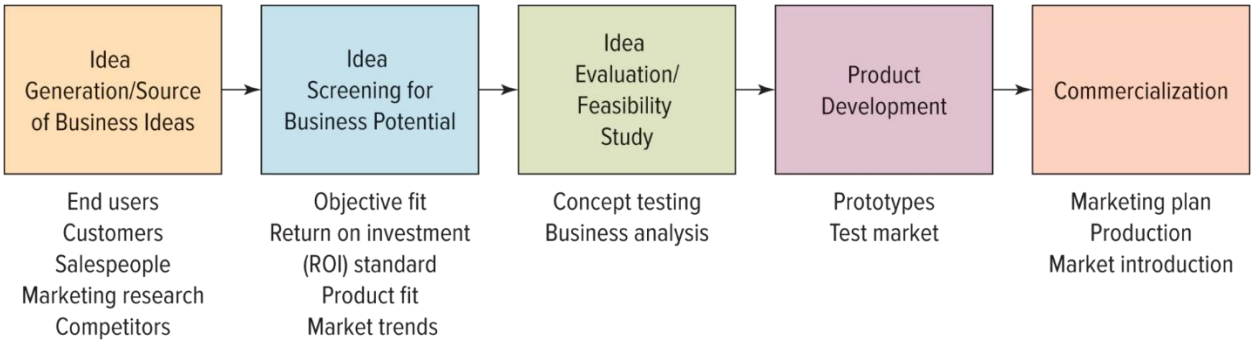




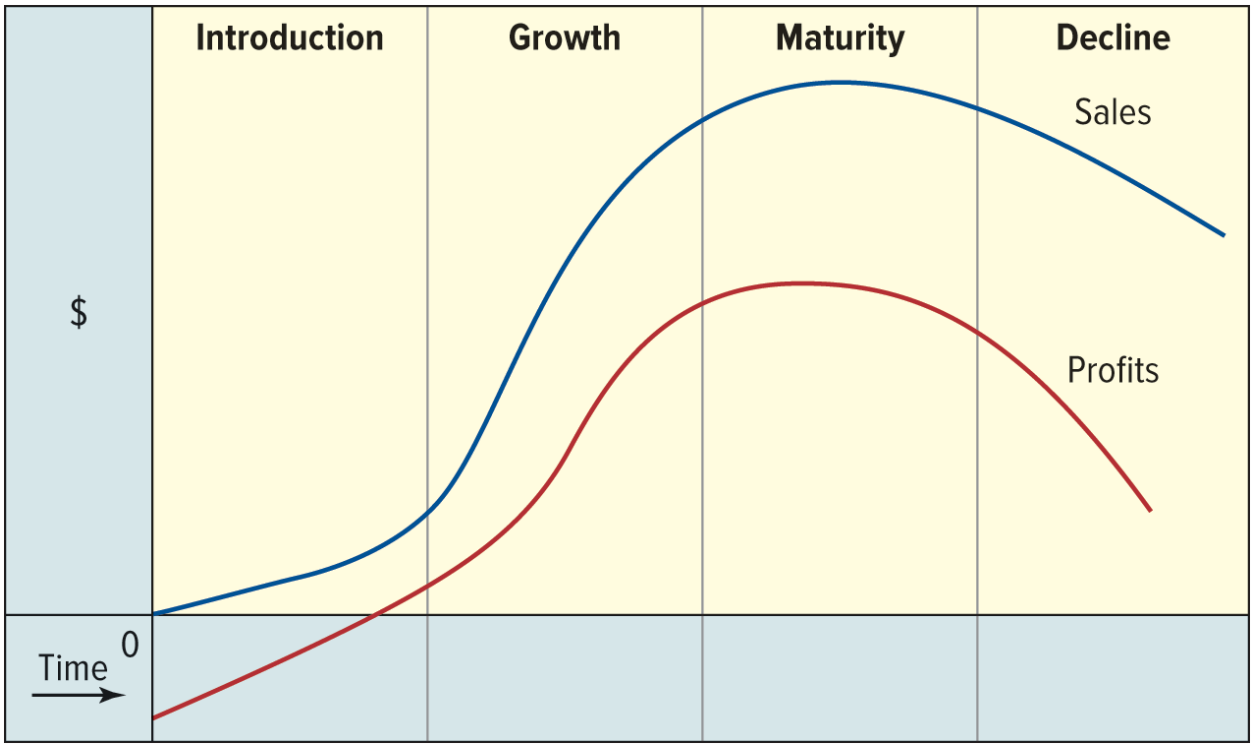
End users
Customers
Salespeople
Marketing research
Competitors

Objective fit
Return on investment (ROI) standard
Product fit
Market trends

Concept testing
Business analysis

Prototypes
Test market

Marketing plan
Production
Market introduction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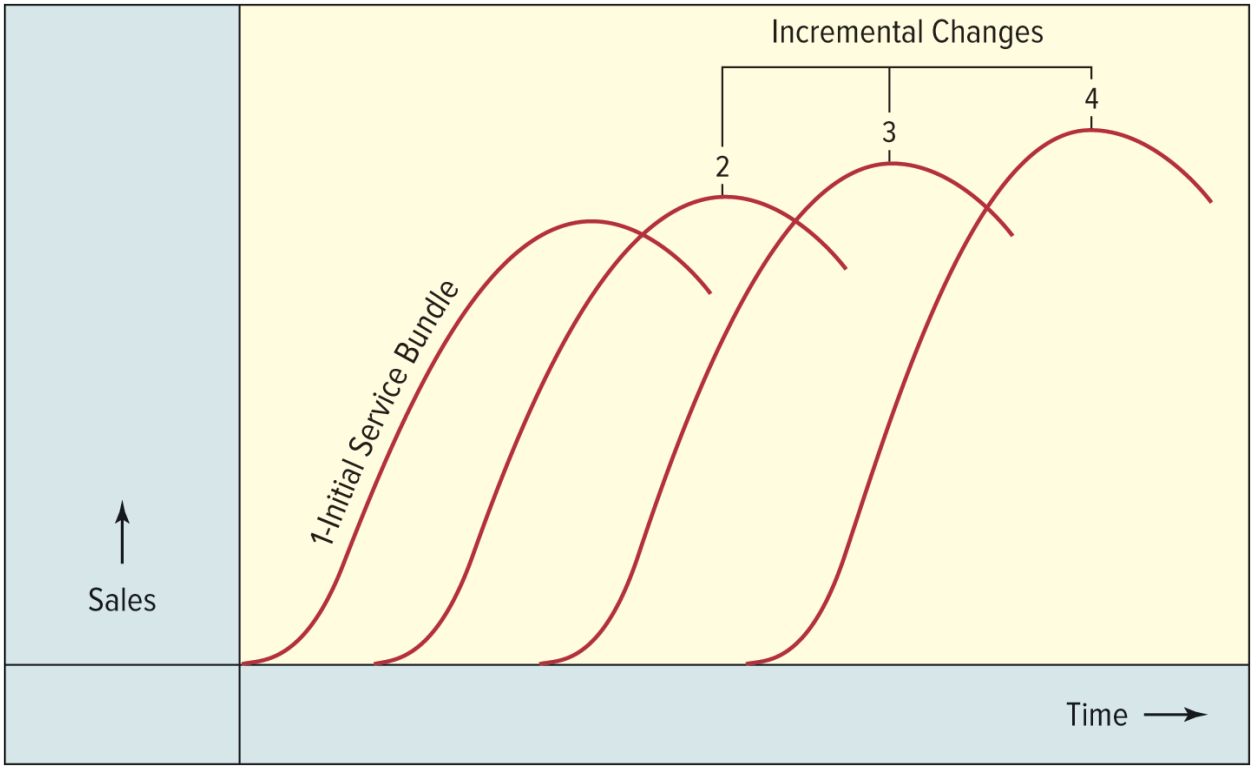

CHAPTER SUMMARY 9-1 Recognize the steps of the marketing process. Marketing involves connecting your customer to your product or service. Connecting these through the value proposition is the first step of the marketing process. Using the value proposition to craft the 4 Ps of marketing is the second step. 9-2 Use customer roles and profiles to help

define the target market. Customers can hold many roles such as end users, purchasers, decision makers, and influencers. Customer profiles are created to help understand the types of customers. Initial research on customers is usually done with personal interviews organized to give unbiased information. These profiles are used to help define the target customer. 9-3 Segment and further define your target audience. Aim for a narrow segment (or portion) of the market. Develop a profile of the needs of your target market. Match your product or service and promotion to your target market's needs. 9-4 Recognize the major methods for conducting marketing research. Primary data are data that you gather to answer your current questions. Primary data can be gathered through observation, focus groups, or questionnaires. Questionnaires can be administered via mail, phone, Internet, or in person and can consist of closed-ended or open-ended questions. Secondary research are data that are already gathered for some other purpose than the question you are trying to answer. Internet, libraries, newspapers, and magazines offer free data; data are also for sale and can range from relatively inexpensive to very expensive. While using secondary data is quick and often free, they may not give you exactly what you need. 9-5 Develop your value proposition. Build your value proposition by analyzing your firm's distinctive competence and customer needs. Create a mantra and a one-paragraph value proposition. 9-6 Understand how to organize marketing plans. In addition to developing the marketing section of a business plan, with a little additional work it is possible to create a stand-alone marketing plan for your business. 9-7 Recognize the characteristics of goods and services. Goods differ from services in tangibility, inseparability, perishability, and heterogeneity. Very few true goods or services exist; most products fall somewhere along a goods–services continuum and have components of each. 9-8 Define the total product. A product is a bundle of services and goods and has three basic levels: core, augmented, and total product. Understanding the total product allows you to concentrate on the features and aspects important to the customer and to coordinate your other marketing activities. 9-9 Differentiate the stages of new product development. The stages include idea generation, idea screening, idea evaluation, product development, and commercialization. During the product development phase, prototypes can be developed in order to do additional screening, and test markets or test market simulations can be run. The last stage, commercialization, involves developing the final marketing plan, getting the product into production, and the start of sales. Page 329 "Me-toos" are products similar to competitive products that need a much-abbreviated new product development cycle. In this case, only the aspects that are different from competition need to be tested. 9-10 Consider the impact of the product life cycle. The stages of the product life cycle include introduction, growth, maturity, and decline. From a marketing viewpoint, the different stages tell us about the competition and how to focus the individual elements of the marketing plan—product, price, promotion, and placement.

As services are usually more able to make incremental changes almost continually, the service life cycle is more typified by a series of mini–product life cycles.

KEY TERMS 4 Ps of marketing product development process customer development process end user purchaser decision maker influencer purchasing process budget cycle customer profile customer job pivot total available market (TAM) serviceable available market (SAM) serviceable obtainable market (SOM) penetrated market (PM) long-term value (LTV) customer lifetime value (CLV) churn feedback testimonial outstanding customer service market segmentation segmentation target market predetermined market segments marketing research primary research secondary research ethnographic research focus group survey scalar question dichotomous question categorical question open-ended question value proposition goods services tangibility perishability inseparability heterogeneity total product augmented product core product me-too products prototype commercialization

DISCUSSION QUESTIONS How do the risks differ when you start your business using a purely product development process approach versus a purely customer development process approach? What are the customer roles and what does the person in each role do? What are the elements that go into a customer profile and why is each useful? What is the target market and how does it differ from the other types of markets (TAM, SAM, SOM, PM)? What are some of the ways that you could use secondary research to better understand the various segments of your market and to develop promotional materials? What sorts of primary data could you collect using observation for your car wash? Page 330 Create a questionnaire that could be used to gather data for your car wash. Use both closed- and open-ended questions. A college education comes pretty close to being a true service. Discuss the four main characteristics of service—intangibility, inseparability, perishability, and heterogeneity—as they pertain to a college education. What is the core component, the augmented product, and the total product sold at your college or university? How does it differ from your institution to others in the area? List all the products/services you have seen lately that are promoted as new, different, improved, or otherwise changed from what has been available before. What percentage of these are actually me-too products? Identify the differential advantages these companies believe they have over the competition.

EXPERIENTIAL EXERCISES Visit your school's library or your local public library and investigate the reference section. Make a list of resources that might be useful if you were opening a new dry cleaning business. Try https://claritas360.claritas.com/mybestsegments/ and look for the Zip Code Lookup. For this exercise use the zip code around Contra Costa Community College, 94806. Compare the first listed segment on the PRIZM and P$YCLE lists. How do their approaches to describing people in that segment differ? Which would be more useful to you, and why? Feel free to repeat this for the zip code you are interested in for your business. Select a local shopping mall to do some observation and primary data collecting. (Try a food court or bench in a waiting area where you can be comfortable and unobtrusive.) Make a list of the sorts of observational data you could collect. Interview someone at the company where you work. What kind of marketing plan does the company have (formal, informal, detailed, etc.)? How often is it reviewed? At this time, you are fairly experienced with college education. What do you suggest could be done in order to reduce intangibility, inseparability, perishability, and heterogeneity of this service? With a group of friends, brainstorm a list of ideas for a service you could provide for your college professors. Design an idea checklist to evaluate this list. Select a service you know. Brainstorm a list of potential incremental changes—whether technologically feasible or not—that might extend the product life cycle for it over the next several years. Go to a product idea site like www.ideaswatch.com (lists of sites is available at www.ideaconnection.com/ideasites/ and www.quora.com/What-websites-let-people-share-discuss-and-rate-ideas). Grab an idea and work with one or more people to think about who might be the target market for that product or service. Prototype by creating a box for your product: Paper over a box (e.g., a cereal box, a gift box, a small shipping box, etc.) and draw, write, paste things you print, add stickers or whatever you can to convey what your product or service does to the potential customer. Revise as you think necessary. When done, share it with potential customers and get their reactions. Revise the box as you learn more about what you want to do for customers. Prototype by creating a nonworking model of your product: In the old days people would do this out of bars of soap (Ivory was big and easy to work with), Play-Doh, clay, wood, block, LEGOs, or things found around the house, school, or workshop. Today we can add 3-D printing, using free software like SketchUp, Blender, or K-3D to make it. Consider grabbing something similar from the "thingiverse"—a repository of more than 1.4 million 3-D designs you can download and modify for free—to get started, tweaking the design to make it fit your vision. If you don't have access to a 3-D printer, share the design with potential customers instead. With a partner, design two questionnaires about a service business you are considering—dry cleaning, restaurant, and so on. One questionnaire should have only open-ended questions, while the other one should ask similar things using closed-ended questions. Each of you should submit your questions

(orally, in writing, or online) to 10 people (different sets of people). Compare your results. What are the pros and cons of each set of data? Look for segment-focused ads by browsing through magazines that appeal to very different audiences, for example, different ethnic groups (Latina, Ebony), different age groups (AARP Magazine, Seventeen), different hobbies or sports (Skiing, American Philatelist, Opera Today), different income levels (Forbes, Affordable Housing Finance), different sexes—or gendered orientations (GQ, Ladies Home Journal, Out, Girlfriend), different life stages (Brides, Pregnancy, AARP Magazine), and the like. Review the ads and look for clues that would cause you to believe that the ad is focused at a particular group. Show several of these ads—without identifying the magazine—and see if your classmates can determine the possible target market. Figure 9.3 shows a couple of examples.

MINI-CASE YAK MILK54 Dongzhou Gongbu saw a golden opportunity, only he wasn't quite sure what to do with it at first. A native Tibetan, he had worked in the Chinese government for a number of years and had witnessed the difficulties the Chinese government was facing feeding its people. While China is quite a large country, over 60 percent of its landmass is unsuitable for agriculture. Those areas that are suitable are also where China's huge population lives, further reducing available land. Dongzhou remembered the vast Tibetan plateau dotted with yak, the only animal suited to the severe climate found there, and knew there had to be a solution. Yak are "low-maintenance" animals needing no feed that they can't gather themselves and living on the open range herded by nomadic Tibetans. While yak are milk producers, the quantities produced are much less than that produced by dairy cattle. In addition, because of its remoteness, bringing milk from the plateau to the population centers is an expensive proposition. A quick look at the prices on existing milk products and yak milk cost structure showed that yak milk just couldn't compete, because it would need to be about 50 percent more expensive than cow's milk. Dongzhou didn't let this stop him, though. He consulted a specialist and found that yak milk was higher in certain nutrients than cow's milk. In addition, the Tibetan plateau is well respected in China for being pollution-free. Dongzhou capitalized on these features, plus the fact that the yak were truly organically raised and revered in Chinese mythology. He positioned his product not as just another milk but as an extremely healthy alternative to other products—almost a nutritional drink—and priced it at a premium level. CASE DISCUSSION QUESTIONS How did Dongzhou Gongbu "discover" his new product? What was his "total product"? Who do you imagine is the target market for yak milk? How might he use this in advertising? Can you think of another product that is basically the same as the competition and has been positioned much differently in order to command a higher price?